

THE EFFECTS OF INTEGRATION AND UNIFICATION
OF THE CANADIAN ARMED FORCES
ON THE BUDGET ORGANIZATION
AND BUDGET DEVELOPMENT
AND SUBMISSION PROCESS

Stanley L. Krejci

LIBRARY
NAVAL POSTGRADUATE SCHOOL
MONTEREY, CALIF. 93940

T139342

THE EFFECTS OF INTEGRATION AND UNIFICATION
OF THE CANADIAN ARMED FORCES ON THE BUDGET ORGANIZATION
AND BUDGET DEVELOPMENT AND SUBMISSION PROCESS

By

Stanley L. Krejci
Bachelor of Arts
Northwestern University, 1964

A Thesis Submitted to The George Washington University
School of Government and Business Administration in
Partial Fulfillment of the Requirements for the
Degree of Master of Business Administration

June, 1971

Thesis directed by Harold Charles Demoady, MPA, MBA
Adjunct Associate Professor of Management
The George Washington University
Washington, D. C.

If the Lord Almighty had consulted me before
embarking on the Creation, I should have recom-
mended something simpler.

-- Alphonso X of Castile, the Wise

TABLE OF CONTENTS

LIST OF ILLUSTRATIONS.....		vi
Chapter		
I.	INTRODUCTION.....	1
	Background	
	Scope of the Thesis and Research Questions	
	Definitions	
	Objectives of Thesis	
	Methodology	
	Summary	
II.	DEVELOPMENT OF THE INTEGRATION AND UNIFICATION CONCEPT.....	11
	Background	
	Previous Attempts at Integration and Unification	
	The Glassco Recommendations and the Department of National Defence	
	Mr. Hellyer and His White Paper on Defence	
	Reactions to Integration and Unification	
	Effects of Integration and Unification	
	Summary	
III.	SURVEY OF THE CANADIAN BUDGET PROCESS.....	32
	Historical Development of Canadian Fiscal Policy	
	Organization of the Budget System	
	Canadian Budgetary Cycle	
	Effect of the Glassco Commission on Financial Policy	
	The Revised Budget Preparation, Reporting, and Control Process	
	Summary	
IV.	UNIFICATION AND THE ROYAL COMMISSION: THEIR EFFECT ON THE DEFENSE ORGANIZATION AND BUDGETARY PROCESS.....	52
	Introduction	
	Defence Budget Development Prior to Unification	
	Organization of the Unified Defence Budget Office	
	The Defence Budget Cycle	
	Adoption of FBBS in the Defence Budget Cycle	
	Results of Unification on Defence Budget Development	
	Summary	

V.	CONCLUSIONS.....	80
	Introduction	
	Canadian Financial Management Reviewed	
	Review of the Original Unification Defence Budget	
	Objectives	
	Weaknesses in the Original Budget Objectives	
	Modifications to the Original Budget Objectives	
	Areas for Further Study	
	SELECTED BIBLIOGRAPHY.....	91

LIST OF ILLUSTRATIONS

Figure	Page
1. The Organization of the Canadian Financial Management and Budget Control Departments and Agencies.....	35
2. Chronology of Estimates and Expenditures for a Fiscal Year.....	38
3. Summary of the Expenditure Process in Government.....	41
4. Organization of the Defence Budget Office Since Unification.....	58
5. Defence Budget Cycle Since Unification.....	60
6. Responsibility and Activity Accounting for Defence Budget Development.....	63
7. Defence Responsibility and Activity Accounting Pyramid.....	65
8. The Basic Building Block.....	76

CHAPTER I

INTRODUCTION

Background

On 1 August 1964 the Governor General, representing the Queen, gave Royal Assent to a defense bill submitted by the Government of Prime Minister Lester B. Pearson. This bill, which ended months of tumultuous parliamentary debate, nearly brought the Canadian government to a halt in the conduct of other official and important affairs of state. It also revolutionized the concept of the traditional defense establishments so well understood and utilized by most of the nations of the world.¹ This new concept was 'integration,' or the combining of the three services, the Canadian Army, the Royal Canadian Navy, and the Royal Canadian Air Force into a single service, the Canadian Armed Forces.

Minister of National Defence in 1964, the Honourable Paul Hellyer stated

. . . we, as the laboratory of the world-wide defence reorganization, can either advance or retard the inevitable move of other nations in this direction. It is a heavy responsibility and we mean to discharge it with as many thorough, all-embracing thought-processes as we can muster.²

The reasons for introducing this radical departure from the traditional service concepts were detailed in Mr. Hellyer's White Paper on Defence. The first reason was purely economic. The costs of defense were

¹Donald Creighton, Canada's First Century 1867-1967 (Toronto: Macmillan of Canada, 1970), p. 345.

²Jon B. McLin, Canada's Changing Defence Policy 1957-1963 The Problems of a Middle Power in Alliance (Baltimore: The John Hopkins Press, 1967), p. 199.

growing rapidly as industrial prices increased and there were other budget demands in Canada, mainly welfare and health expenditures, requiring the use of already restricted funds. Thus, in order to rebuild the seriously out-moded defense structure with a politically imposed frozen defense budget, necessary cutbacks were needed in the operations and maintenance and equipment fields. Mr. Hellyer was determined to increase defense procurement to 25% of available funding, an increase of 15% over the previous year, 1963-1964.¹ He hoped to save \$100 million annually and to eliminate 10,000 jobs.²

A second major reason for considering integration and unification was the need to develop more defense industry in Canada to enable the industry to produce military equipment more quickly and economically.³ Mr. Hellyer noted that once the new roles for Canadian defense were established, it must be "equipped with the best possible 'hardware' regardless of the country of origin.....but where capabilities are approximately equal, we certainly would favour Canadian production."⁴ Consequently, various inducements were to be offered to Canadian industry to gain their support for this policy of re-emphasizing the importance of competitiveness by employing long-range planning that would permit more effective Canadian competition.⁵

A third consideration for the development of a unified armed forces was spelled out in considerable detail in The Royal Commission on Government

¹Armed Forces Management, V. X, No. 9, June 1964, p. 53.

²Canada, House of Commons, Debates, 17 February 1964, p. 1417.

³McLin, Canada's Changing Defence Policy, p. 197.

⁴Paul Hellyer, "What the White Paper Means to the Air Industry," Department of National Defence Publication (Queen's Printer, 1966), p. 1.

⁵McLin, Canada's Changing Defence Policy, p. 197.

Organization, or the Glassco Commission.¹ The Glassco Commission noted that there were serious weaknesses in the Department of National Defence, particularly in the area of financial management.² The Commission also noted that integration might "correct recognizable defects of previous policies and organizations."³

Even a more important factor in the re-evaluation of the armed forces was a new philosophy on defense that was developed under Prime Minister Pearson's direction. Mr. Hellyer, before the House of Commons, stated that

. . . Canada can make its greatest contributions to collective defence and world order by developing well-equipped, flexible conventional forces and providing the strategic mobility⁴ to move them quickly to meet emergencies anywhere in the world.

To undertake this review of Canada's defense structure, it was necessary for the government to analyze and re-define the role of Canadian foreign policy structure. This study was undertaken and the Pearson Cabinet decided to progress with the initial phases of the defense concept of integration.

While these were the stated, official reasons of the Pearson Government to introduce the concepts of integration and unification into the defense structure, there were many subtle factors that appeared to have had a greater influence on the decision-making process to determine whether or not to proceed. The first point, while intangible, was pride. Canadians had been dependent during its entire history on either the United Kingdom or the United States for mutual defense of its borders and its integrity as a nation.

¹J. Grant Glassco, F. Eugene Therrier, and Watson Sellar, The Royal Commission on Government Organization, V. I-IV (Ottawa: Queen's Printer, 1962).

²Ibid., p. 69.

³McLin, Canada's Changing Defence Policy, p. 195.

⁴Canada, House of Commons, Debates, 21 February 1966, p. 1562.

As Canada approached its first 100 years of confederation in 1967,¹ it was understood that it was time to rethink these relationships. This was also done by the Pearson Government with the determination of making the forces no longer a specialized part of an international force but instead a "balanced, autonomous force."²

In addition to the pride factor, there is another that is also intangible. That factor is Mr. Hellyer himself. When he moved from an obscure back-bench party seat in the House of Commons to the position of Minister of National Defence, he approached the job with his customary and well-known religious zeal.³ He correctly evaluated the situation that if the armed forces were to progress, they must have more money. However, there was no additional funding available. Faced with this situation, Mr. Hellyer undertook a study of the defense structure in his White Paper on Defence and the result was the unique concept of integration first, unification second.⁴ With the backing of the Cabinet, Mr. Hellyer tabled his program before the House of Commons and the battle began on a new philosophy and structure of defense in Canada.⁵

Scope of the Thesis and Research Questions

While the entire study of the history of integration and unification is worthy of examination, it would be difficult in a thesis of this length to

¹Creighton, Canada's First Century, p. 10.

²McLIn, Canada's Changing Defence Policy, p. 196.

³Peter C. Neuman, Canada and the Coming of Pierre Trudeau, (New York: Alfred A. Knopf, 1969), p. 205.

⁴Canada, Department of National Defence, White Paper on Defence, (Ottawa: Queen's Printer, March 1964), p. 19.

⁵Canada, House of Commons, Debates, 21 February 1966, p. 1562.

cover adequately more than one specific area within the Department of National Defence. Therefore, the scope of the thesis will be the area of budgeting in the defense structure. The main research question to be addressed is whether or not integration and unification have improved the Department of National Defence budget organizational concepts and the development and submission procedures for the defense budget. A number of related subsidiary matters will also be examined. The development of the concept of integration and unification will be briefly reviewed in order to establish the necessary background and foundation for an examination of the budget development and submission process. Secondly, the Canadian budget development and submission process used by Defence prior to integration and unification will be surveyed in order to evaluate the changes wrought by the Glassco Commission and the implementation of the new concept of integration and unification. Thirdly, the concepts of the unified budget organizational structure and the defense budget development and submission process as originally conceived under integration will be evaluated. Emphasis will be placed on the role of Planning-Programming-Budgeting Systems under the new concept.¹ As unification and integration have progressed, any changes that resulted from the new concept actually in operation with that of the original concept will be compared.

Definitions

There are in Canada differences in the definitions of terms, in the spelling of many words, and in the political system structure. 'Integration' is one of the more commonly used words in the thesis and signifies the amalgamation of related and somewhat overlapping functions and activities into a single

¹Telephone Interview with Mr. R. F. Lindsay, Staff, Director General Budget, Office of the Comptroller-General, Canadian Forces Headquarters, Ottawa, Canada, 8 February 1971.

organizational unit. After the first step of integration was undertaken by the Department of National Defence, the concept of 'unification' was pursued. Under that program, the identity of the three existing services was eliminated and the three services, minus their duplicated functions, were formed into what has become known as the Canadian Armed Forces. This is composed of three environments, land, air, and sea, under a single headquarters staff management of both civilian and military authorities. The Chief of Defence Staff occupies the highest military position in the Canadian Armed Forces and the Minister of National Defence, a member of the Cabinet as well as a member of the House of Commons, occupies the senior civilian position. These are similar to the United States Chairman of the Joint Chiefs of Staff and Secretary of Defense.

Throughout the thesis, Canadian spelling is used in direct quotations and when it is found in a permanent title. For example, the word 'defence' is used when referring to the Canadian system.

The Canadian form of government is parliamentary, modeled on the British system, with the Queen of the United Kingdom as Head of State when she is in Canada, or the Governor General when she is not.¹ The Canadian Parliament is composed of two houses. One is the House of Commons, whose representatives are universally elected on a party basis, the majority party forming the government and selecting one of its members to be the Prime Minister. The upper house is the Senate to which members are appointed for life and in recent years it has assumed even less responsibility and power than the British House of Lords.² Consequently, the Cabinet, composed of the Prime Minister and his department ministers, such as the Minister of National Defence, is

¹ Glassco, Royal Commission, p. 10.

² W. F. Dawson, Procedure in the Canadian House of Commons (Toronto: University of Toronto Press, 1962), p. 98.

in effect the Government.¹ Thus, all decisions affecting the country are first approved by the Cabinet before they are presented to the House of Commons for formal approval.

Objectives of Thesis

The objective of the thesis will be to determine what are the significant advantages and gains realized from the introduction of the concept of integration and unification in a military system. In addition, this study should be viewed with the possibility of application of certain areas to the United States Department of Defense as it faces similar budget reductions because of other demands on the available funds. Further examination of certain phases of integration to eliminate duplicated functions, particularly in the budget development area, may lead to a better understanding of what is necessary to reduce the overall expenditures of the Department of Defense.

While the Canadian experience is a prototype, it deserves serious consideration, for it is evident that while they have encountered a vast number of problems, they have achieved significant results in the areas of cost reduction and elimination of heavily staffed and duplicated commands and their structures. It was a difficult political decision for the Government of Prime Minister Lester Pearson to undertake, regardless of the economic realities observable. The Canadian members of Parliament found it difficult to accept the closure of the many defense establishments and have been fighting these closures in the manner so familiar to those members of the United States Congress. While the elimination of the three distinct services was a blow to the tradition-minded,² it seems to have met less resistance than would have

¹Glassco, Royal Commission, p. 127.

²McLin, Canada's Changing Defense Policy, pp. 203-204.

been expected, for in the eyes of the politicians, the loss of the distinct services with their related uniforms did little to the political structure within their own local political power bases. However, when a base closure was proposed, that singular fact had more effect on them.

But after nearly three years of a unified armed forces, there seems to be little, if any, opposition to a continuation of the original plan. The release of a new White Paper on defense in May or June 1971 will detail the future of the unification of the armed forces.¹

Methodology

This thesis will be developed from materials available from military and civilian library sources in the Washington area as well as from documents gathered from personal research in Ottawa and Montreal. Additional sources of information were made available at the Canadian Embassy library and at the office of the Washington Canadian Defence Liaison Staff. Field trips to military establishments, including Canadian Defence Headquarters, resulted in an accumulation of material from direct personal interviews or through correspondence and telephone conversations with members of the Canadian military establishment.

Summary

While the scope of the thesis is restricted, the field of defense and any new approaches to reductions in defense spending warrant further examination. The Canadian situation, as Mr. Hellyer stated, is being closely observed by other nations. Because cost reductions in the defense structure in

¹The Montreal Gazette, Tuesday, 13 April 1971, p. 7.

most countries would be welcomed as long as the original missions of a defense establishment were not jeopardized. Optimism was expressed by then Prime Minister Pearson, who

seldom defended very strenuously the policies of his own government, on the CBC-TV program "Twenty Million Questions" on 6 October 1966, when host Charles Lynch asked the Prime Minister: "Are you sure that what you're going to get at the other end of the armed services unification program - at the business end of it - will be effective?" Mr. Pearson calmly replied: "Well, if it's not effective, then the policy will have failed."¹

However, the Canadians have logically, and certainly radically, approached this subject and the results, while still uncertain, are revolutionary in concept and impact, and all, on the whole, are positive in value.² This positiveness deserves further consideration on the part of other governments, for tradition is fine as long as nothing better is developed to replace it. It seems clear that the Canadians have found a new concept that can easily and effectively replace these traditional military concepts without totally damaging their individual defense posture.

Chapter II will deal with the historical perspective of integration and unification and will establish the background necessary for examination of the defense budget process in the Canadian government.

Chapter III will survey the development of the financial structure of the Canadian Government under which the Department of National Defence operates.

Chapter IV will examine the effect unification and the Glassco Commission had on the Defence budget organization and the budget process and will compare the original budget concepts with changes recognized from operational experience.

¹Neuman, Coming of Trudeau, p. 85.

²Canada, Department of National Defence, Staff Brief, 4 February 1971, p. 3.

The last chapter will evaluate the concept of integration and unification and the budget organization and development and submission objectives.

CHAPTER 11

DEVELOPMENT OF THE INTEGRATION AND UNIFICATION CONCEPT

Background

The objectives of integration, leading to unification, of the Canadian armed forces were stated by the Minister of National Defence, Paul M. Hellyer, in his 1964 White Paper on Defence. These included the economic benefits to be gained from the elimination of duplicated commands and functions, the stimulation of the Canadian defense industry, the improvement of the financial management techniques within Defence, the decision to separate the Canadian defense posture from United States and British influence, and the development of national pride. However, it was the 1963 Royal Commission on Government Organization that provided the impetus for Mr. Hellyer's concentrated efforts to develop and to implement integration and unification into the armed forces structure.

In the Glassco Commission report it was stated that "the significance of the distinctive operating environments is declining rapidly with the development of defence technology" and "it is increasingly recognized that to maintain three separate organizations for such functions is uneconomic."¹ Thus, regardless of whether or not a case could be made for unification in the long run, the Glassco Commission found that "there are strong reasons for seeking greater integration of those functions common to the three services."² Throughout the

¹Glassco, Royal Commission, V. I, pp. 68-69.

²ibid., p. 69.

Commission Report are continual references to the economies and efficiencies that might be realized. For example, in defining the principal tasks of the Department of National Defence, the Glassco Commission stated that after the primary task of "implementing the defence plans of the Government of Canada" other areas must be considered, including "costs and the impact of defence expenditures on the domestic economy and the balance of international payments."¹ This led Mr. Hellyer in his White Paper on Defence to repeat the significance of cost effectiveness in the Department when he wrote that "the minimum requirements of defence of Canada must be achieved as economically as possible."²

Unification which followed integration was one of the significant achievements of a remarkably long legislative record of then Prime Minister Lester B. Pearson.³ It was John Diefenbaker as Prime Minister in 1960 who suggested the formation of The Royal Commission on Government Organization. Once the Commission submitted its recommendations, Mr. Pearson directed his Cabinet to proceed with a thorough examination of the Report and to respond to the recommendations. It was Mr. Pearson who provided the free atmosphere in which Mr. Hellyer could pursue his interests in improving the defense establishment.

To achieve economies Mr. Hellyer indicated that there would have to be an analysis of the entire defense policy of the Government. He recommended to the Prime Minister that an immediate savings would be recognized with the

¹Ibid., p. 65.

²Richard H. Leach, ed., Contemporary Canada (Durham, North Carolina: Duke University Press for the Duke University Commonwealth Studies Center, 1967), pp. 259-260.

³Neuman, The Coming of Pierre Trudeau, p. 45.

withdrawal of some troops from the NATO defense establishment. But before taking this initiative with the Government, Mr. Hellyer, with a preliminary understanding of the Glassco Commission recommendations, undertook advance contacts with other governments. In a series of talks with British Defence Minister Denis Healey and Lord Louis Mountbatten, Mr. Hellyer found a receptive audience for his proposed cutbacks.¹ This insight to the acceptability of his future overall proposal to the Government strengthened Mr. Hellyer's determination to begin a serious study of the impact of integration and unification on the Department of National Defence. He noted that if the forces overseas were reduced, there would be a "savings of 5000 personnel at an annual savings of \$45 million."²

Previous Attempts at Integration and Unification

While The Royal Commission on Government Organization provided the foundation on which the White Paper on Defence was developed, there were instances in Canadian military history of attempts to restructure the defense establishment. A majority of these considerations to integrate various commands within the three services were developed because of the increased cost of maintaining duplicated functions and facilities. The Canadian military establishment achieved its own force structure following World War I when Canadian services were established from units which had been a part of the overall United Kingdom service force.³ The years leading up to World War II were spent in developing and organizing these distinct services into truly Canadian units based upon inherited British traditions. At that time there was

¹Craig Powell, "Is Trudeau Building a 'Fortress Canada'?" Armed Forces Management, XVI, No. 8, May 1970, p. 52.

²Ibid., p. 51.

³Leach, Contemporary Canada, pp. 237-239.

little pressure from the general public to consider the effects of costs. Because of existing protective joint agreements with the United Kingdom and the United States, the armed forces were maintained at a low manpower and equipment level. Aside from the pressures within Quebec Province during World War II, there was no need for the government to consider costs during the War. However, once the War had ended, there was a recognizable need for the funds spent on a large defense establishment to be directed into other areas of social concern. Thus defense expenditures began to fall as the nation returned to its traditional peacetime expenditure levels. However, the crisis in Korea supplemented by Canada's expanding role and commitments on the international scene resulted in a defense effort of increasing magnitude reversing the downward trend in post-war spending. Expenditures that had been reduced to \$385 million in 1950 responded to increased defense activity and rose to \$1652 million in 1962. Manpower increased to 126.5 thousand in 1962 from 47.2 thousand in 1950. The \$1652 million represented 25% of the total federal expenditures, but defense activities in terms of employment, equipment, and the operational costs accounted for even larger proportions of the federal government's operations.¹ Following Korea, there was a growing restriction on funds. The government had to consider other methods of providing the same defense capabilities within a smaller structure while maintaining the ability for rapid build-up of the services should the need arise.²

The joint effort by the United States and Canada was costly to

¹Glassco, Royal Commission, p. 62.

²Leach, Contemporary Canada, pp. 237-239.

Canada as well as an incursion on Canadian soil and sovereignty. Thus, the first step was to be a redirection of the role of defense for Canada. Defence Minister Hellyer stated the views of the Canadian governments since the end of World War II when he stated

. . . the objectives of Canadian defence policy, which cannot be distinguished from foreign policy, are to preserve the peace by supporting collective defence measures to deter military aggression; to support Canadian foreign policy including that arising out of our participation in international organizations; and to provide for the protection and surveillance of our territory, our air space, and our coastal waters.¹

The second step was to undertake some reorganization measures to reduce the force structure and related defense expenditures. World War II brought a new approach to defense policy planning and several attempts at integration of certain areas of the defense structure. However, these early attempts to restructure various elements of the services were often made "from the bottom and worked upwards."² They were not successful. In the late 1950's the medical and chaplain services were unified, but these changes were not as far reaching as had been expected, for the Surgeon-General reported to, as well as received direction from, the heads of the three services.³ This did not permit ease in policy planning and created more inefficiencies than positive improvements. An unsuccessful attempt was made to create an integrated teletype relay system for the three services.⁴

¹Hellyer, White Paper on Defence, p. 4.

²Leach, Contemporary Canada, p. 239.

³Glassco, Royal Commission, p. 71.

⁴Ibid., p. 71.

Another reorganization achievement following World War II was the coordination at the top of the chain of command. The three separate service ministers were replaced by the Minister of National Defence.¹ At the same time a separate military Chairman of the Chiefs of Staff Committee was appointed; however, he was not given the authority to resolve differences among the service chiefs.² The Royal Commission on Government Organization noted this deficiency in its final report when it recommended that additional powers of coordination be vested in the Chairman of the Chiefs of Staff Committee.³ This point was further emphasized in the White Paper on Defence in which it was stated that "this solution does not adequately resolve the basic issues. If a single command structure is not established, coordination by the committee system will remain with all of its inevitable delays and frustrations."⁴

The Glassco Recommendations and the Department of National Defence

With the history of early attempts at integration as background, the Minister of National Defence began his serious re-examination of the defense structure and policy based upon the recommendations of the Glassco Commission. The Commission report made three recommendations, all directed toward improved financial management within the Department. The first was for better coordination of the activities common to the three services. The second was for more effective application of military and civilian manpower. The third was the need

¹McLIn, Canada's Changing Defence Policy, p. 198.

²Ibid., p. 198.

³Glassco, Royal Commission, pp. 69-74.

⁴Hellyer, White Paper on Defence, p. 18.

to achieve greater economies within the defense budget.¹

Previous governments had noted there were areas for improvement in coordination, manpower, and economies but they were reluctant to pursue them since the armed forces, while small in size, had established a national reputation for excellent service abroad and internally and therefore the forces were a source of pride to the nation. But many government officials recognized the need to "correct recognizable defects of previous policies and organizations."² Previous documentation supported the findings of the Glassco Commission concerning the Chairman of the Chiefs of Staff Committee. Its weakness lay in the fact that each of the three members was provided with an effective veto against decisions of that committee. This assured that each of the service Chiefs of Staff had had direct access to the Minister of National Defence who was not adequately equipped or staffed to always coordinate initiatives coming from all directions. Attacking this form of military organization, the Glassco Commission stated that the "effectiveness of the Staff Committee as an executive authority is, to a large extent, dependent on the personal qualities of its members, each of whom has a virtual power of veto in its deliberations."³ Under that established procedure, the Chiefs of Staff met each week and from time to time collectively with the minister, who would resolve problem areas when he met with them. However, the continuous conflict within the Committee had serious effect on the development and implementation of the government's military policies.

Thus, the recommendation for improved coordination most

¹Glassco, Royal Commission, p. 70.

²McLIn, Canada's Changing Defence Policy, p. 195.

³Glassco, Royal Commission, p. 70.

responsible for the Hellyer move toward unification was that there be "consolidation under a single executive independent of the three Chiefs of Staff of authority and responsibility, reporting directly to the Minister of National Defence."¹ The functions of the Comptroller-General of Inspection Services and the Judge Advocate General had been previously integrated and both positions reported to the Deputy Minister of National Defence.² The success of this move was impetus to pursue further the concept of consolidation. However, the three services believed that this would cause the creation of a "fourth service concept" and were against such a proposal.³

Mr. Hellyer expanded the Glassco Commission recommendations to include the entire defense structure. A single Chief of Defence Staff, as recommended by the Commission report, would be responsible for both control and administration of the Canadian armed forces. The Glassco Commission specifically stated that

1. Provision be made for the exercise by the Chairman, Chiefs of Staff Committee, of the ministerial power of direction over the armed forces, within such limits as the Minister of National Defence may define.

2. The Chairman, Chiefs of Staff Committee, be given the control and administration of such elements common to two or more services as the Minister may designate.

3. In recognition of the change of status implicit in these proposals, the title of the Chairman, Chiefs of Staff Committee, be altered to Chief of Defence Staff.⁴

In the manpower area, the Glassco Commission recognized that the armed forces were responsible for directing and regulating the manning,

¹Glassco, Royal Commission, pp. 71-72.

²Ibid., p. 71.

³Ibid., p. 72.

⁴Ibid., p. 74.

training, arming, supplying, and accommodating of the armed forces and providing health and welfare services. It went on to report that "in some of these matters the paramount consideration is the mission; in others each of the three services will experience needs which are common to its various missions . . . and distinguished from those of the others" and that "the task of support will be common to all elements of the armed forces."¹

The Glassco Commission reported that

. . . the rigidities in the defence establishment also have important budgetary effects. Given the relatively inflexible commitments of the defence forces, any significant curtailment of expenditure plans is likely to bear unevenly on the various elements of the defence budget. Costs of military personnel and of operations and maintenance are relatively uncontrollable; thus, any curtailment tends to fall on the more controllable items, especially equipment purchases.²

Thus, in the progress toward a more efficient and stronger defense structure, the rigid structure of the high command was having a noticeable adverse effect on the economics of defense. The Glassco Commission continued this argument further by stating that any "significant reductions in the strength of the armed forces or reallocations of resources for defence purposes can be made only by changing Canadian commitments within the collective defence systems."³

In its careful analysis of the defense structure and its policies, The Royal Commission on Government Organization noted the weak areas in which improvement and change would produce a more effective and efficient establishment. Through its report and final recommendations, the Commission stressed

¹Glassco, Royal Commission, p. 66.

²Ibid., p. 67.

³Ibid., p. 66.

coordination of defense management, manpower effectiveness, and economy of the defense dollar. The words 'integration' and 'unification' were used throughout the report. However, the Commission noted the difficulties of implementing more than integration of a limited nature. When the Government of Prime Minister Pearson accepted the final report, there was little thought at the time that it would provide the stimulus for the new Minister of National Defence to pursue a course of action that would radically change the defense structure. All of the recommendations made by the Glassco Commission were, in the long run, more than adequately responded to and acted upon by the Government and the Department of National Defence.

Mr. Hellyer and His White Paper on Defence

Mr. Hellyer's White Paper on Defence began innocently with the following:

Having stated the problem, the Royal Commission recommended the gradual transfer of the executive control of common requirements to the Chairman, Chiefs of Staff Committee. In the opinion of the government, this solution does not adequately resolve the basic issues.¹

With this benign beginning to his now famous document, Mr. Hellyer continued that Canada had to realign its defense thinking, both internally and internationally. He desired a smaller force with better equipment and greater flexibility so that they could be moved "quickly to meet emergencies anywhere in the world."² As in all military establishments, Mr. Hellyer was concerned with the wastes and faulty procurement procedures.³

¹Hellyer, White Paper on Defence, p. 18.

²Canada, House of Commons, Debates, 21 February 1966, p. 1562.

³Senator William Proxmire, Report from Wasteland: America's Military-Industrial Complex (New York: Praeger Publishers, 1970), p. 20.

Then Mr. Hellyer introduced his sweeping concept of integration and unification to the Government and to the Canadian people when he stated that

Following the most careful and thoughtful consideration, the government has decided that there is only one adequate solution. It is the integration of the Armed Forces of Canada under a single Chief of Defence Staff and a single Defence Staff. This will be the first step toward a single unified force for Canada. The integrated control of all aspects of planning and operations should not only provide a more effective and coordinate defence posture but should also result in considerable savings.¹

This paragraph caused the Government of Canada to come to a virtual halt as the members of all parties reacted to the stunning announcement of the Government. The press began its attack. The public began forming sides in what was to become a six month battle. Mr. Hellyer led that battle; he led it well and effectively and in the end was successful.

The man, Paul M. Hellyer, is an important element in the study, for it was his personality and effort that ensured that integration and unification became a reality, regardless of the public, governmental, or military pressures exerted on him to the contrary. Mr. Hellyer's military background reveals that he never reached a non-commissioned officer rank although he served in two wars in the Royal Canadian Air Force and the Canadian Army. Studies have shown him to be a frustrated military man, anxious for the opportunity to achieve some of the previously missed success in the military field.² He was a "difficult man to know."³ He refused to practice "the hearty arts of phony camaraderie and gave all of those who came in brief contact with him an

¹Hellyer, White Paper on Defence, p. 18.

²McLIn, Canada's Changing Defence Policy, p. 197.

³Interview with Captain Kenneth Hickford, Comptroller, Washington Canadian Defence Liaison Staff, 8 February 1971.

impression of stand-offish pomposity. But beneath an imperturbable surface, he was both personable and impassioned."¹ Much of his impassioned attitude is said to have developed along with his religious zeal.²

When he moved from a party back-bench seat to a Cabinet post, he took "absolute charge when he was moved into the Defence Department activity."³ According to one disillusioned Admiral, he was "like some bush-league McNamara."⁴

With his personality so difficult to understand and despite his personable but subdued private characteristics, Mr. Hellyer's tactics, and more particularly his brusque methods, met "with understandable resistance from the members and ex-members of Canada's proud armed services."⁵ What caused much of the conflict with the public and members of Parliament was that "he foisted the system of integration and unification on a mature society" not actually prepared to accept such a radical departure in the defense structure in view of the potential gains to be achieved.⁶ The public questioned whether the project could be successfully completed without great expense or without jeopardizing the existing defense posture.

Mr. Hellyer and his behind-the-scenes developer of the concept of integration and unification, a former public relations officer, "Colonel"

¹Neuman, The Coming of Pierre Trudeau, p. 205

²Ibid., p. 205.

³Ibid., p. 205.

⁴Ibid., p. 205.

⁵Ibid., p. 206.

⁶Hickford Interview, 8 February 1971.

William Lee of the Royal Canadian Air Force,¹ continued to develop his program. He began to act with a messianic zeal, trying to accomplish a life's mission regardless of the adverse reaction.

Reactions to Integration and Unification

Reactions to Mr. Hellyer's White Paper on Defence began immediately after it was tabled before Parliament. Former Prime Minister John Diefenbaker, who had created the 1960 Royal Commission on Government Organization, attacked the bill from its inception.² Others felt Mr. Hellyer had failed to learn the lessons of history that a nation cannot have a viable single force structure. Others reported that Mr. Hellyer was "upset because he had to lean against the defence structure of the United States and the United Kingdom" and that he preferred to establish Canada's own ability to defend itself.³ Even Prime Minister Pearson took some humorous swipes at the unification bill. In 1966, two years after the introduction of the bill, at an Albany Club speech in Toronto he said that "the Pearson government would face a great lawsuit because the new green unified armed services dress was modeled on outfits worn by Coca-Cola Company truck drivers."

Favorable reaction in concurrence with the goals of integration came from the Chiefs of the three services who viewed the concept as an experiment "in defence organization which other countries might, with profit, promote."⁴ Nine of Canada's allies, including the United States, established study groups to evaluate and appraise the concept's relevance.⁵ The Canadian government hoped that "the distinctive experiment in defence organization

¹Hickford Interview, 8 February 1971

⁵Ibid., p. 5.

²Neuman, Coming of Pierre Trudeau, p. 152.

³Hickford Interview, 8 February 1971.

⁴Hamilton Spectator, 4 September 1965, p. 4.

could give a significance to its alliance contribution which its diminishing relative strength was taking away."¹ A spokesman from the Department of Defense in the United States stated that any form of standardization in an organization is an excellent concept."²

While there were pros and cons to the concept, all were sensibly expressed both within the government and from the general public. However, one of the major disputes arising from the integration and unification program came from within the Department of National Defence from the Royal Canadian Navy. "Canada's naval forces were responsible for the fact that the only significant opposition to the government's plans for integration occurred in the Navy."³ In July 1966 the Commander and the Deputy Commander of the Maritime Command "'left' office to protest what they regarded as excesses in the movement toward a unified national defence force."⁴ Members of the other services were equally expressive, although the senior officers, having learned from the government's reaction to the Navy's outbursts, on the whole remained silent. Some reported that the move toward integration was nothing more than an "exercise in semantics" or that "only the names of the existing organizations have been changed."⁵

One writer in a balanced statement on the conflict that was raging throughout the country reported that

¹Ibid., p. 4.

²McLin, Canada's Changing Defence Policy, p. 199.

³Ibid., pp. 203-204.

⁴Toronto Globe and Mail, 22 July 1966, p. 2.

⁵Hickord Interview, 8 February 1971.

. . . opinion is split both within the government and intellectual community. Some feel the military forces are being cut too severely, far below levels prudent for national security. Others believe Canada should sever all military alliances. Among Canadian rank and file, the reaction tends to be total indifference.¹

Regardless of criticisms mounted against the integration and unification bill, the debate began.² The Minister of National Defence, in his argument in favor of unification as well as the development of the country's own ability to maintain its defense structure, stated that "it does increase our costs, but, at the same time. . . we are able to introduce Canadian concepts, improvements, and adopt Canadian equipment, which has an individual application as well."³ After months of tumultuous debate, the bill was enacted and integration at the top management level was effected on 1 July 1964.⁴ With the bill a law, it was predicted that "it may take a generation (10-15 years) until today's junior officers are in command positions before there is total unified thinking and planning."⁵

Effects of Integration and Unification

Parliament passed the integration and unification bill and it had to be implemented. In order to effect successful change, there are a number of unilateral managerial techniques that may be employed. First is to change by decree. The second is by replacement of personnel. The third is through

¹Powell, "Building a Fortress Canada?", p. 50.

²Neuman, Coming of Pierre Trudeau, pp. 408-409.

³Canada, House of Commons, Special Studies Prepared for the Special Committee on Matters Relating to Defence (Ottawa: Queen's Printer, 1965), p. 1076.

⁴Yves E. Pinet, "Improved Budgeting and Programming in the United States Department of Defense and Canadian Developments" (unpublished MBA Thesis, The George Washington University, 1965), p. 2.

⁵Powell, "Building a Fortress Canada?", p. 53.

structural change.¹ Certain aspects of all of these phases were employed by Mr. Hellyer in his implementation program. The change by decree came with parliamentary approval of the radical bill. With the change of service concept approved, Mr. Hellyer began replacing those individuals with whom he felt he could not work or whom he did not trust in promoting the program. The Royal Canadian Navy critically suffered, for Mr. Hellyer found that a majority of the admirals were against the program. He consequently suggested they resign. Individuals acceptable to Mr. Hellyer filled the vacancies. In a similar manner Mr. Hellyer's organization began to change as the personnel were changed. As Greiner wrote, ". . . revolutionary attempts are now being made to transform organizations rapidly by altering the behavior and attitudes of line and staff personnel at all levels of management."² This was the course of action that Mr. Hellyer was employing with the Defence establishment.

Throughout the initial course of integration and unification, Mr. Hellyer personally undertook most of the action. However, other Greiner management techniques of pressure and arousal in "which the power structure is shaken at its very foundation" were employed.³ This unification bill provided an excellent study of the management techniques to be used to effect a rapid and successful organizational change of major proportions. The machinations of Mr. Hellyer illustrate that a successful manager must employ all of the techniques available at the right time to ensure that change is effective.

¹Larry E. Greiner, "Patterns of Organization Change," Harvard Business Review, May-June 1967, pp. 120-126.

²Ibid., p. 120.

³Ibid., p. 119.

Mr. Hellyer had the management tools as well as the power to implement them. Some of the basic proposed changes to the military establishment were originally outlined in the Glassco Commission report. The report acted as the basic blueprint for the White Paper on Defence, the eventual plan for implementing unification.

The Royal Commission on Government Organization stated that "the first and most limited arrangements involve the assignment of responsibility for a particular service, on a local basis, to the major user in the locality" and that such a step would "yield significant gains in efficiency and economy."¹ The second step "involves a general assignment of responsibility to a single service, which may or may not be the major user."² In discussing this approach further, the Commission went on to report that "the integration or consolidation of common functions can be attempted in three different ways, the first being based on the assignment of operating responsibility to a single service, the other two involving the removal of direction from direct control of any individual service."³

Following the suggested direction of the Glassco Commission, the White Paper stated that after the bill was passed, "a unified command, eventually extending to all operational levels, must be established, followed by the adoption of a single uniform."⁴ On 1 August 1964 the first stage of integration was accomplished with the Chairman, Chiefs of Staff Committee position being replaced by the Chief of Defence Staff, Vice Chief of Defence Staff, Assistant Chief of Defence Staff, four functional Chiefs for Operational Readiness,

¹Glassco, Royal Commission, p. 69.

²Ibid., p. 69.

³Ibid., p. 69.

⁴McLIn, Changing Defence Policy, p. 198.

Personnel, Logistics, and Engineering.¹

The second step was the formation of six functional commands, a reduction from eleven organized along service lines. This was begun in early 1966 and was completed by 1968.²

Introducing a common terminology in the rank structure and the use of a single uniform was the last step. This program was begun in 1968 and is to be completed by the end of 1971.³

"Greater standardization of requirements and rationalization of supply. . . will yield significant economies."⁴ This was one of the major benefits to be recognized with the implementation of the unification bill. The most obvious areas of reductions were in civilian and military personnel. The military population was immediately reduced over the years beginning in 1966 and continuing into 1970 toward the 82,000 officers and men objective with savings in salaries of millions of dollars. A similar reduction in force was undertaken in the civilian manpower structure.⁵ While the forces were beginning to be reduced in size, the Department of National Defence began its program of base consolidations and closures both in Canada and overseas to achieve immediate economies. Procurement contracts were allowed to lapse. New construction was halted in all areas until a complete survey of facilities and capabilities could be undertaken in line with new defense objectives. The logistics command was organized to promote a single service concept. The defense budget was politically frozen at \$1.8 billion and Defence had to begin to operate within a restricted budget for at least the next three years.

¹Debates, 21 February 1966, p. 1563.

²Debates, 17 February 1966, p. 1417.

³McLIn, Canada's Changing Defence Policy, p. 198.

⁴Ibid., p. 198.

⁵Ibid., p. 198.

While these organizational changes were being implemented, Defence began a review of its policy under which the new service would operate until 1974. The Department, in organizing itself for execution of the defense programs, noted that there were two facts of prime significance:

1. Canadian defence arrangements do not envisage independent military action by the forces of this country.

2. The forces used in meeting any major emergency must be organized, equipped, and trained before the emergency arises.¹

Yet as far back as 1938, Prime Minister Mackenzie King reaffirmed the 1920 Opposition Leader's remarks that Canada faced no enemy of "a kind which constituted a strategic threat to her security."² However, Canada needed a defense establishment tailored to her capabilities and commitments. "Military policy concerns decisions of governments of members of state systems about their military establishments, including the decision whether or not to maintain a military establishment."³ Therefore, a military policy is an inescapable function and to be a member of the state system is to have a military policy. Thus, with integration and unification, the government began to review its alliances abroad and its role within the nation. Any withdrawals from commitments in NATO and its peacekeeping missions would be gradual. The reductions within Canada were to be accomplished slowly over a period of years.

The gradual reductions and changes were being implemented when the government changed. Lester Pearson was replaced by Prime Minister Pierre E. Trudeau, who introduced

¹Glassco, Royal Commission, pp. 65-66.

²Leach, Contemporary Canada, p. 234.

³Ibid., p. 235.

. . .sweeping changes in national goals. Under the current regime, priorities have been almost completely reversed. Whereas international cooperation in mutual defence formerly appeared first on the list, it has now moved down the line, giving way to the protection of national sovereignty and the use of the armed forces to carry out a wide range of activities supplementing the civil authorities and contributing to national development.¹

The current Chief of Defence Staff, General R. R. Sharp, stated that Canada's move is "not one of getting out of Europe, but rather a change of emphasis to internal problems that the present financial and political situations in Canada dictate."² Yet there are those observers who feel that the establishment of Canada's sovereignty as the number one goal indicates there is a retreat to 'Fortress Canada' and the adoption of a Sweden-like foreign policy of neutrality and isolation.³ Others feel that the Canadian military establishment is "currently deprived of adequate strategic justification."⁴ But the Chief of Defence Staff countered all critics of the present defense policy under the newly unified force structure in the following manner:

Money that a country puts into defence is much the same as money put into insurance. You don't want to use it, but it is there if you need it. Insurance money, however, is always productive, never idle, and military resources must always be prepared to do the military job if needed. But, in the interim, they must support the nation, not remain idle. This, of course, increases their involvement in domestic issues.

For this reason, we in the Department of National Defence should justify what we propose in terms of support of those aims. . .or we should not exist.⁵

¹Powell, "Building a Fortress Canada?", p. 50.

²Ibid., p. 51.

³Ibid., p. 50.

⁴Leach, Contemporary Canada, p. 232.

⁵Powell, "Building a Fortress Canada?", p. 53.

Summary

The continuous attempts begun in the 1950's to restructure the organization of the Canadian armed forces ended in 1964 with the implementation of the integration and unification of the forces into a single service. The Minister of National Defence, Paul M. Hellyer, encountered resistance from the government, the Opposition, from within the military establishment, and from the public regarding his proposal, a proposal initiated by the Glassco Commission in its final recommendations. However, unification was passed by Parliament and has been implemented throughout the armed forces. The savings in dollars are difficult to evaluate since the budget has been frozen for three years and inflation continues. There have been initial increased costs from implementing the new concept while maintaining part of the old not offset by the dollar savings in personnel reduction and decrease in equipment purchases. The years ahead will be a period of refinement until the current ten year plan expires or is renewed or replaced with the plan for the 70's and 80's.

An overview in Chapter III of the development of the overall Canadian government budgetary process and financial management techniques will complete the foundations for analysis of the effects integration and unification have had on the Department of National Defence budget organization and budget development and submission procedures.

CHAPTER III

SURVEY OF THE CANADIAN BUDGET PROCESS

Historical Development of Canadian Fiscal Policy

Canada did not begin any serious attempt to examine its budget procedures or financial management practices until the early 1900's.¹ Then, as if the examination were caused by a natural embarrassment from the country's failure to comprehend the close control of the budgetary and financial fields, a concerted effort was undertaken to introduce, pass, and adopt new organizational laws and frameworks under which all phases of the country's finances would come under close scrutiny from the executive and legislative bodies.²

From the initial developments of Canada as an organized society, the country was financially controlled almost singularly from Great Britain until the British North America Act of 1867 under which Canada was granted confederation and the right to act individually without prior approval of governmental proposals from the British Crown.³ It was under this important act in Canadian history that the first recognizable evidence of the development of the Canadian budgetary system is formalized. The British North America Act established a single Consolidated Revenue Fund for the centralized control of

¹Dawson, Canadian House of Commons, pp. 32-91.

²Neuman, Coming of Pierre Trudeau, p. 42.

³C. C. Lingard, Canada: One Hundred 1867-1967 (Ottawa: Queen's Printer, 1967), pp. 1-54.

revenues and expenditures in Canada.¹ In 1878 a further refinement increased financial management control in the form of the Consolidated Revenue and Audit Act, an act which strengthened the audit practices that had been virtually unchanged since the British North America Act.² It created the position of Auditor General and made him responsible for expenditures from the Consolidated Revenue Fund. This act was necessitated because votes, or appropriations, were usually over-expended; expenditures were often charged to the wrong votes; liabilities against the government were incurred without the approval of Parliament and were, at the same time, several years in advance of the formal approval from Parliament; various other questionable practices were uncovered; and growth in the size of the departments and agencies, unchecked by Parliament, induced over-expenditures.³ To correct several of these observed deficiencies, Parliament in 1910 created the Treasury Board to review the estimates, or budget requests, and to assume the other related financial management responsibilities.⁴

There were no further changes in the Canadian budgetary process until 1951 during which time the Consolidated Revenue and Audit Act was replaced with the Financial Administration Act.⁵ This act strengthened and clarified the roles and responsibilities of the Treasury Board and the Comptroller of the Treasury. This act has become the foundation of the present

¹Glassco, Royal Commission, p. 127.

²Ibid., p. 127.

³Ibid., p. 127.

⁴Ibid., p. 127.

⁵Ibid., p. 128.

Canadian financial management and budgetary systems. It firmly establishes the Treasury Board and the positions of Minister of Finance, Comptroller of the Treasury, and Auditor General.

In 1955 in order to increase its control over expenditures, the government asked the Minister of Finance to establish a special committee to "consider estimates as may be referred to it and to report from time to time its findings and recommendations to the House."¹ In a continuing move to increase its fiscal controls, the House of Commons in 1958 organized and approved the creation of a standing committee to examine proposed expenditures. However, this committee had no power to determine who would be called to testify before it and has, in recent years, become less powerful than when originally conceived.²

Organization of the Budget System

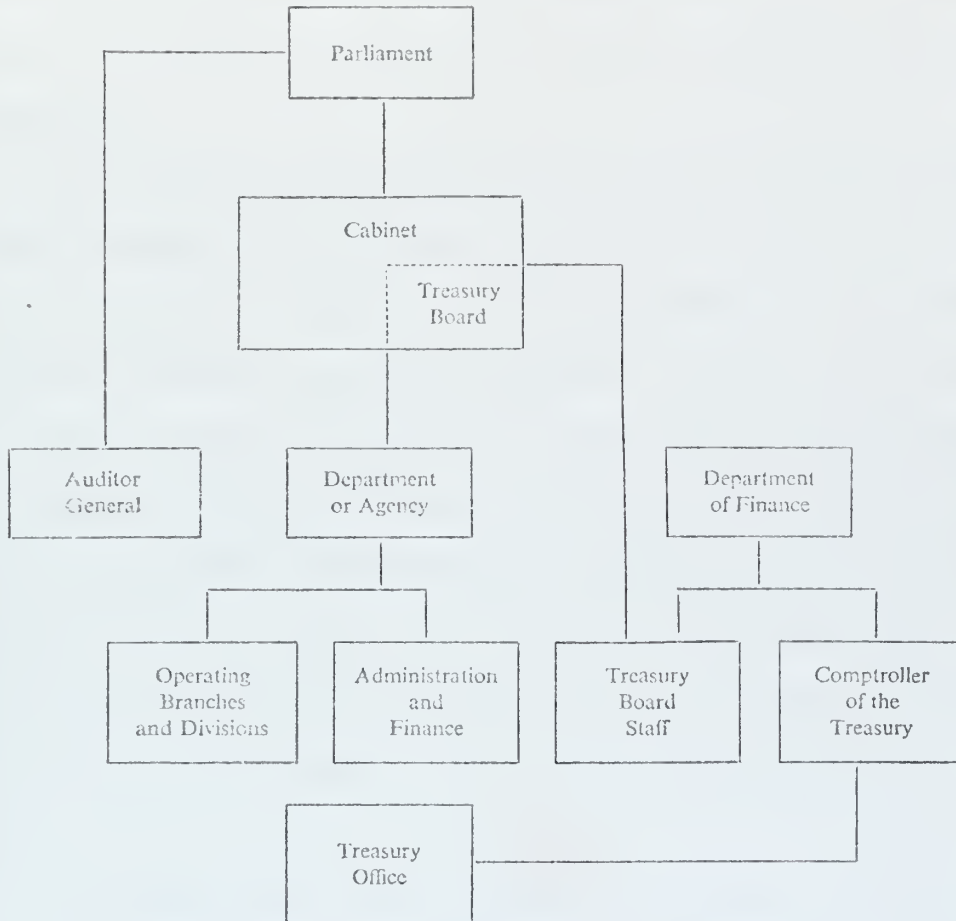
Canada's significant budgetary and financial management positions are the Minister of Finance, the Comptroller of the Treasury, the Auditor General, and the senior staff member of Treasury Board. (See Figure 1 --- The Organization of the Canadian Financial Management and Budget Control Departments and Agencies, p.35.) The Minister of Finance is a member of the Prime Minister's Cabinet, a member of Parliament, and is responsible for the development of his department's fund requests as well as for the policy formulations within the Cabinet framework. At the same time, the Minister of Finance holds an equally important position as the Chairman of the Treasury Board, an organization composed of six Cabinet ministers who, technically, as Ministers

¹Dawson, Canadian House of Commons, pp. 217-223.

²Glassco, Royal Commission, p. 129

FIGURE 1

THE ORGANIZATION OF THE CANADIAN FINANCIAL MANAGEMENT AND BUDGET
CONTROL DEPARTMENTS AND AGENCIES



Source: J. Grant Glassco, The Royal Commission on Government Organization, Vol I (Ottawa: Queen's Printer, 1962), Chart 1, p. 129.

of the Crown, act collectively as advisors to the Governor General as the Executive in the Canadian parliamentary system of government.¹

It is traditional for the Minister of Finance to review the financial condition of the country at least once a year. After his budget speech to the House of Commons, there follows a parliamentary debate limited to eight days during which time the House of Commons becomes a committee of the whole. When resolutions are proposed, the government introduces amending bills through normal channels.²

The Treasury Board establishes the fiscal policies for the government's implementation, develops fund requirements and expenditures, and controls fund collections.³ The Executive is responsible for the proper execution of the approved programs passed by Parliament. In reality, the Treasury Board is part of the collective responsibility of the Cabinet with the day-to-day operations of the Treasury Board being submitted to the Treasury Board Staff. The Treasury Board Staff undertakes consideration and approval of proposals for funds made by the departments and agencies of the government within a certain determined dollar limitation. The Treasury Board in addition issues regulations, gives direction, and delegates authority to the various departments and agencies.

The Comptroller of the Treasury is an officer in the Department of Finance. He is responsible for the enforcement of financial decisions of Parliament, the Executive, and the Treasury Board.⁴ In difficult fiscal matters,

¹Ibid., p. 129.

²Ibid., p. 130.

³Ibid., pp. 128-130.

⁴Ibid., p. 130.

the Comptroller may request direction from Treasury Board and in turn may be overruled by Treasury Board on an appeal from a department minister.¹ Delegated to the Comptroller by the Minister of Finance is the responsibility for maintaining central accounts of the government, preparing annual Public Accounts, and holding certain cash management functions.

It was the Financial Administration Act of 1951 that established as one of the responsibilities of the Auditor General the examination of accounts relating to the Consolidated Revenue Fund to ensure its reliability and accuracy.² Annually, the Auditor General must report his findings to Parliament.

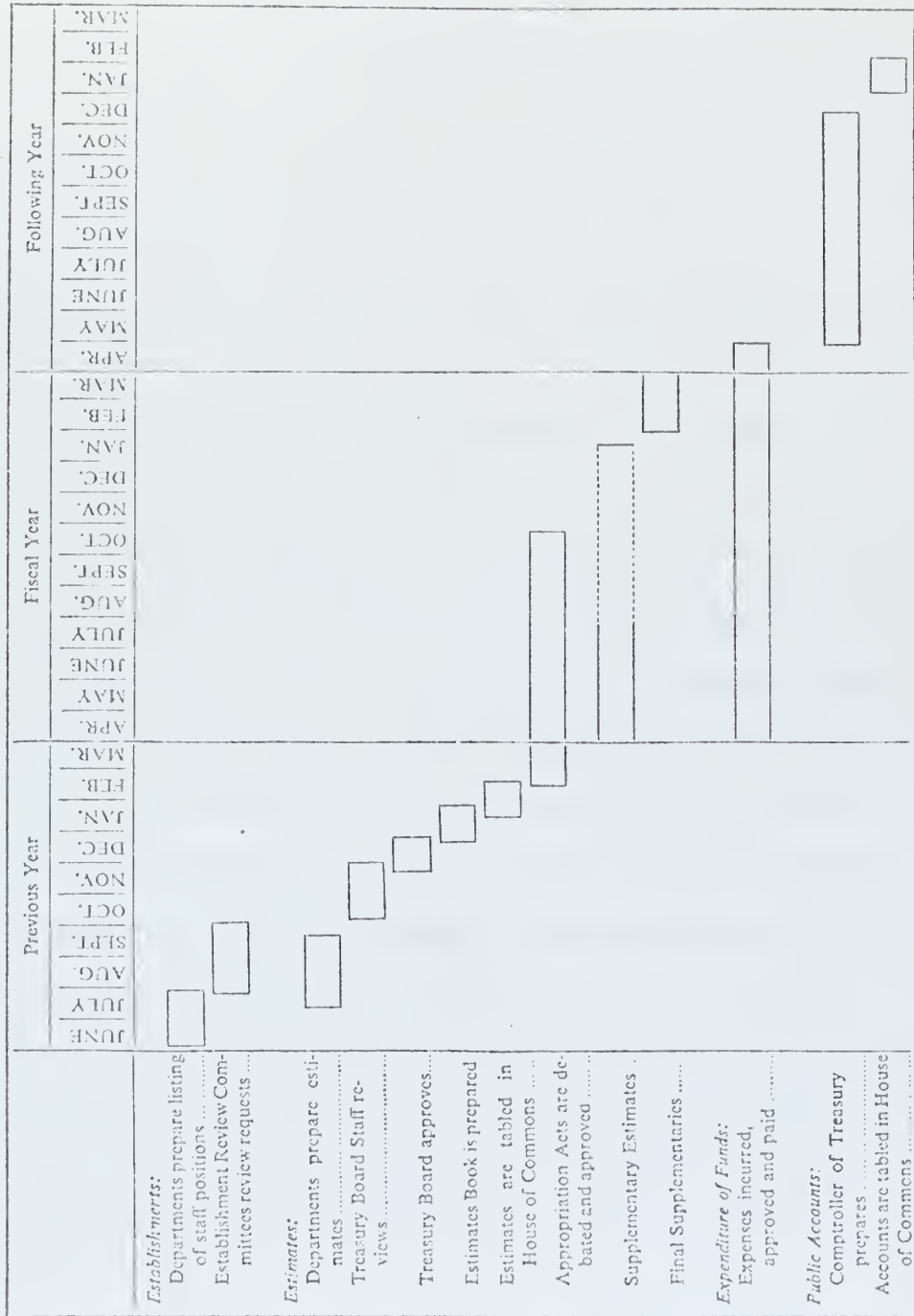
Canadian Budgetary Cycle

The Canadian fiscal year ends 31 March. But before that date, the Minister of Finance tables the coming fiscal year expenditure program before Parliament in the form of Estimates, main and supplemental, which have been developed by his staff and the Treasury Board in working conjunction with the departments and agencies. (See Figure 2 --- Chronology of Estimates and Expenditures for a Fiscal Year, p. 38.) Debate on the Estimates is generally restricted, for the government has approved the budget in principal, and the only opposition comes in the form of questions from the other parties. Once debate is concluded, Parliament approves the Estimates through enactment of the appropriations acts. The Estimates that are submitted to Parliament are not single departmental requests but are each department's proposals divided into

¹Ibid., pp. 130-131.

²Ibid., p. 130.

FIGURE 2
CHRONOLOGY OF ESTIMATES AND EXPENDITURES FOR A FISCAL YEAR



Source: J. Grant Glassco, *The Royal Commission on Government Organization*, Vol. I (Ottawa: Queen's Printer, 1962), Table 3, p. 142.

one or more votes covering several functions or activities of the department. The intent of the vote is based on the narrative description that accompanies the Estimate.¹ This is unique in that it prevents a veto from withholding all funds for a departmental appropriation while other votes from the department are being considered. Each of the votes governs the subsequent expenditure in two ways. First, the dollar limit mentioned in the narrative of the vote cannot be exceeded. Secondly, all expenditures must conform to the limits prescribed by the wording of the vote.

Before Parliament enacts legislation regarding the Estimates, the Committee of Supply must first approve each vote by separate resolution and must question the appropriate minister as advised by his senior officials.² The Committee of Supply rarely disapproves a vote in the Estimates since the entire budget was previously approved by the Cabinet sitting as the Executive. Since the parliamentary system permits the fall of the government in power because of a lack of confidence in a money bill, it behoves the party in power to ensure that all aspects of its budget are considered before presentation to Parliament. After the Committee of Supply has approved the reasons for the requests for funds, the Estimates and votes are forwarded to the Committee for Ways and Means, which then passes resolutions appropriating money out of the Consolidated Revenue Fund to cover the expenses for public services.³

The approval of the Estimates requires only assent by the House of Commons, for in Canada the Senate, the upper house, has no reviewing powers. After the two committees have taken action, the Estimates are sent to the House

¹Ibid., p. 130.

²Pinet, "Improved Budgeting and Programming," p. 75.

³Ibid., p. 75.

of Commons, which approves the appropriations bills, normally following the wording and the amounts used in the Estimates. Should Parliament not have approved the appropriations bills prior to the start of the new fiscal year, the House of Commons will pass interim funding bills until the Parliament has had the opportunity to act on the new Estimates.¹ Funds become available only when the bills are given Royal Assent by the Governor General or his deputy.

After Royal Assent has been received, the appropriation bill becomes law and the money is provided to the Executive to be spent according to the discretionary powers stated in the bill.² The responsibility for the spending of the funds does not lay with the Cabinet minister but with the Executive as a whole. The departments and agencies administer the funds in accordance with procedures established by the Treasury Board and Auditor General. (See Figure 3 --- Summary of the Expenditure Process in Government, p. 41.) Thus, the Executive must follow the expenditures as approved since each member of the Executive is also a member of Parliament. Certain additional funds are provided to the Governor General to meet certain national expenses when Parliament is not sitting.

Effect of the Glassco Commission on Financial Policy

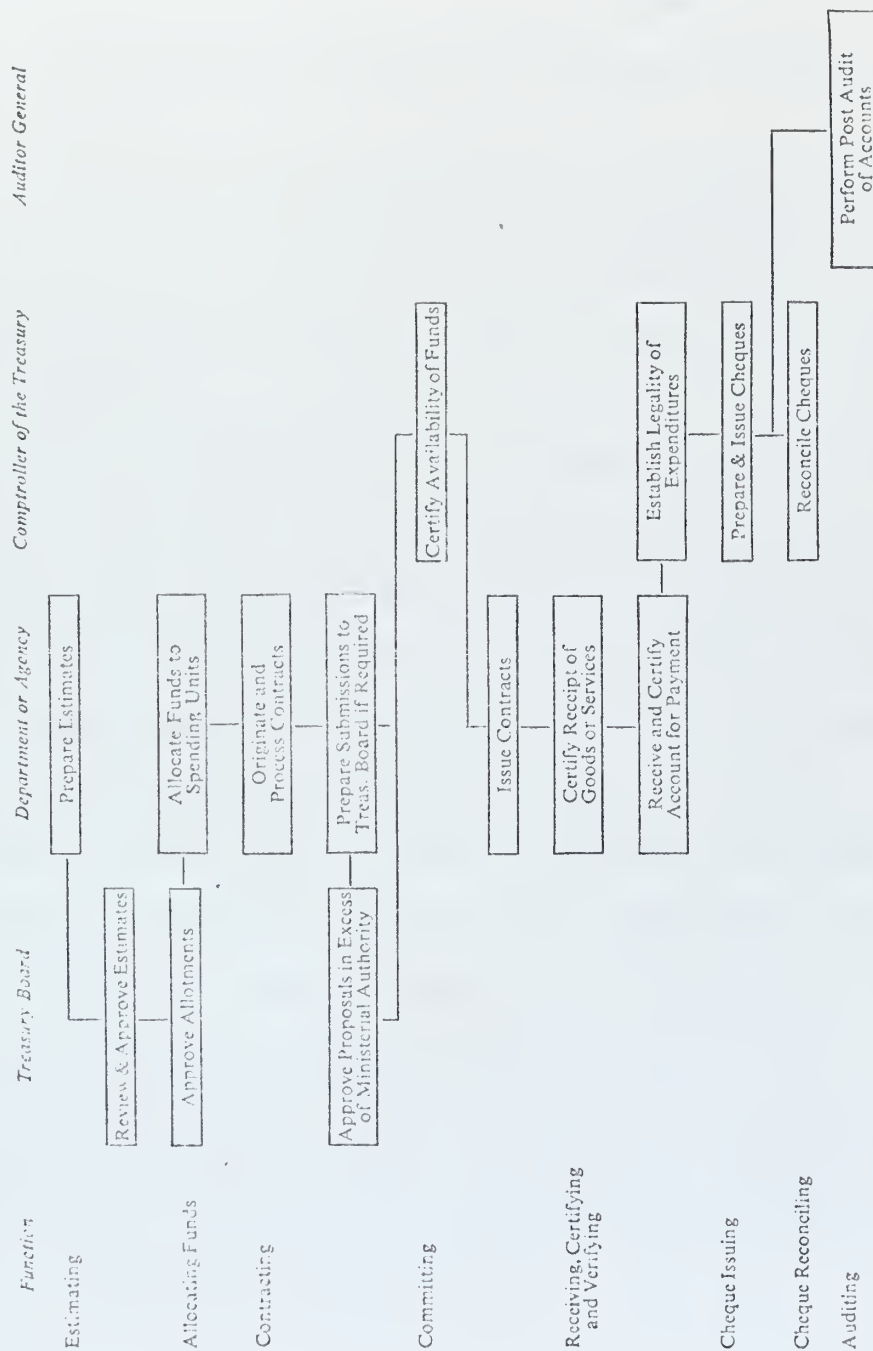
An historical review of the development of Canadian financial policies illustrated the responsibilities of the Department of Finance and its staff positions. These positions and functions have remained virtually unchanged as a result of the recommendations of the Glassco Commission. The budget cycle has also remained unaltered by the Commission report. It was not

¹Glassco, Royal Commission, p. 130.

²Ibid., p. 130.

FIGURE 3

SUMMARY OF THE EXPENDITURE PROCESS IN GOVERNMENT



Source: J. Grant Glasco, *The Royal Commission on Government Organization*, Vol. I (Ottawa: Queen's Printer, 1962), Chart 6, p. 143.

organizational concepts that the Commission challenged. Instead, it asserted that financial policies and administration within the departments could be effectively strengthened to ensure proper financial management of available resources. The Commission was "critical of the Government for the lack of long range plans and objectives and adequate and meaningful financial controls in the departments."¹

With respect to budgeting, the Commission recommended that the Estimates should be prepared by programs and activities. It also recommended a significant degree of decentralization of authority for financial management from the central agency, i. e., the Treasury Board down to the departments and through all levels of the departments counterbalanced by a system of responsibility accounting. Departmental officers could then be held accountable for their stewardship of this decentralized authority for management of funds.²

What in fact was recommended by the Glasco Commission and has now been accepted by the government as policy is a system of Program Budgeting and Responsibility Accounting, practices which have proved successful in industry. The Treasury Board Staff with the assistance of management consultants undertook to develop a Government Financial Management Manual establishing guidelines for a new Canadian financial management concept applicable to all of the departments and agencies. Some of the important objectives are:

1. To show the nature of programs being carried out by each department and the activities making up each program so that those in authority, by knowing the purpose for which funds are being requested, will be in a better position to establish priorities and to decide on the most effective allocation of funds or other resources available to the Government.

¹Ibid., pp. 62-63.

²E. J. Benson, "Financial Management in Departments and Agencies of the Government of Canada" (Ottawa: Queen's Printer, 1967), pp. 1-5.

2. To bring together as many of the costs associated with a with a given activity or program as is practicable so that those in authority can weigh prospective benefits against related costs and can estimate the effect of a cutback or expansion.

3. To facilitate the planning and control functions of departmental management by providing a means of assessing the effect of changes in demands for services and thus in the level of activity or funds needed to finance a given program.

4. To improve financial management within departments by identifying individual accountability whenever practicable for estimating and controlling of revenues and expenditures associated with a particular program.

5. To assess the performance of accountable officers at every level of management in departments in their management of the program concerned.¹

Hence, the Glassco Commission made recommendations with the government determining their validity and ordering their implementation. The Treasury Board was given the responsibility for developing the recommendations into workable tools and guidelines for the departments. What resulted was a manual devoted to all aspects of the financial management question. For this thesis, only the area of budget preparation, reporting, and control as detailed by the Treasury Board in its manual will be examined, for this area directly affected the budget organization and budget development process of the Department of National Defence.

The Revised Budget Preparation, Reporting, and Control Process

The Treasury Board manual states that in order for managers to be able to discharge all of their responsibilities, they require authority to spend funds under an approved budget. To be held accountable for this management, their performance must be measured against the approved budget. Consequently, the first step necessary to achieve this financial management goal is

¹Ibid., pp. 7-11.

to prepare the budget and have it approved. However, the budget is only useful for management if periodic reports are prepared comparing the actual with the planned performance. To ensure that this will be achieved, the Treasury Board manual recommends that certain controls be implemented to gain a balance between the responsibilities and authorities given to the line manager and those retained by senior management.

After the Canadian government has developed its goals and objectives to be achieved for the coming fiscal year, these long-range and certain short-range plans must be translated into a budget by the manager with a view to estimating their needs for personnel, facilities, and funds. Budgets of this type will fall into three general categories: the operations and maintenance budget, the working capital budget, and the budget for grants and special funds.

In budget preparation, management has certain responsibilities that have been established by the Treasury Board to comply with the recommendations of the Glassco Commission. The actual budget must be prepared at the lowest level of responsibility and become progressively consolidated as it "pyramids upwards through the levels of management."¹ To enable lower management to prepare their facets of the budget, they must have a clear understanding of the department's goals and objectives, both long-range and short-range.

Once these goals and objectives have been classified, detailed plans have to be developed in order to specify the required numbers and classifications of personnel, equipment, materials, supplies, and other resources. These physical units must then be expressed in dollars. To achieve these dollar units, the Treasury Board manual requests that:

1. Objectives of expenditure be recorded at the prime responsibility

¹ Ibid., p. 19.

centre where the expenditure is made.

2. As budgets are developed through the managerial pyramid, costs are accumulated by responsibility centre rather than by objectives of expenditure.

3. The accuracy of supporting data is essential for the activities to be carried out.

4. Fixed and variable costs be shown separately where it would be advantageous.

5. Managers attempt to predict as accurately as possible the time of the year in which the expenditure will be made.

6. The reasons for cash requirement differences be noted in the budget request.

7. The commitment authority for special projects be detailed to permit Parliament to know the initial as well as the long-range costs of special capital projects.

8. Flexible budgeting be considered in many areas of departmental budget requests.

9. The manpower requirement for numbers of positions be determined through the budgets examined during the estimates review, and for classification and pay, through the system of personnel management.¹

After the budget has been prepared, it is sent to the manager's supervisor for acceptance and from there, after consolidation with other budgets, to higher levels of management. Usually a senior budget official within the department should review the budget and recommend changes prior to its being submitted to the Treasury Board.

The Treasury Board notes that operations under an "approved budget will likely show that actual expenditures vary from estimated expenditures."² When this occurs, the Treasury Board will recommend that management take action to alter its operations according to the nature of the variances. Managers are to be given maximum freedom to offset deficiencies and surpluses in their

¹Ibid., pp. 20-21.

²Ibid., p. 21.

budgets if this will correct the situation and achieve the job objective, provided the total budget is not exceeded and the manager remains within his area of responsibility. The manager will then have to account for the variances from the original plan. However, should a change in a budget result from a change in the overall plan, then the budget should be adjusted to reflect the new situation.¹

In the Canadian system, each department produces two kinds of reports. The first is for department managers. The second is for Parliament and the Executive.² These reports, according to the Treasury Board Manual, should meet certain standards: accuracy of results, accountability, comparability of actual versus planned results, promptness of submission of the report to ensure time for corrective action; consistency of the presentation of the results for all levels of management from one period to another; and simplicity so that the results are clearly presented in a concise manner with the least amount of detail.

The objectives of management information through standard reporting procedures for budget development should be:

1. To provide a control over operations, and in conjunction with workload analysis, to show the extent to which approved plans are being carried out.

2. To facilitate the management of funds at all times and to show the need for supplementary estimates or adjustments of allocations.

3. To provide a basis for the preparation of the next year's estimates.

4. To facilitate the review of plans and priorities.³

To implement this system of reporting, the Treasury Board has noted

¹Ibid., p. 21.

²Ibid., p. 22.

³Ibid., p. 22.

that "in a good reporting system, separate reports become progressively consolidated as they pyramid upwards."¹ Consequently, it is stressed that every effort be made to establish clear lines of reporting responsibility and to maintain those lines so that the effective consolidation of reports can continue to provide only significant data necessary for departmental as well as governmental decision-making.

"As an organization grows larger, it becomes necessary to delegate managerial duties to lower levels, even though senior management retains complete responsibility."² Thus, the controls created ensure that budget preparation and budget reporting are accurate and correctly reflect the current status of the department. As in developing a budget, goals must also be established for financial control. They should include:

1. Achieving a high degree of responsiveness to local conditions, and the flexibility to adjust to changing conditions and unforeseen developments within approved programs.

2. Simplifying administration generally and reducing paperwork and delay by delegating authority for decisions to the lowest possible level.

3. Placing responsibility at the level where control is most effective and on officers who can be held accountable for the results.

4. Fostering a greater sense of financial responsibility and awareness of the financial implications of management decisions at the local level.

5. Encouraging active participation by senior personnel in the financial management of their programs.

6. Providing an environment that will encourage and assist managers to make the most effective use of available resources.

7. Assuring senior management that the organization is moving in the right direction and functioning properly as it goes.³

¹Ibid., p. 23.

²Ibid., p. 24.

³Ibid., p. 24.

The development of the budget and reporting of expenditures under that budget are two ways of controlling funds. Since the Glassco Commission, the government and the Treasury Board have adopted the policy that once a department is given an approved budget from Parliament, a manager should also be given the greatest possible freedom to spend within the budget. Control should be achieved by monitoring performance and not by "restricting freedom to act."¹ Thus, spending authority for approved funds should be allocated down through the organization in the same manner in which the budget was consolidated. In delegating this spending authority, financial accountability will be maintained only if all managers recognize that they are accountable for their performances to their supervisors; if the delegated authorities are communicated simply and directly to all levels of management by policies, procedures, regulations, and manuals of instruction, all of which should be kept up to date; and if both the person delegating authority and the recipient understand the nature and extent of the delegation that has taken place and the means of control that will be used.

Another method of control is the pre-audit. Under the British North America Act, no payment can be made out of the Consolidated Revenue Fund without the authority of Parliament. Authority is given through the annual appropriations, resulting from the submitted departmental budgets, and through the Financial Administration Act, which provides the major part of the legal basis for the financial control in the government. Under present law, the Comptroller of the Treasury conducts the pre-audit, designed to ensure that:

1. Expenditures are charged to the proper vote and allotment.
2. No vote or allotment is exceeded.

¹Ibid., p. 25.

3. Relevant statutory authorities, all regulations and directives, as well as departmental rules and regulations, are observed.

4. Mathematical accuracy of requisitions for payment, evidenced by supporting vouchers, is verified.¹

The Treasury Board thus oversees all departmental expenditures to "ensure that the rules of Parliament, the central control agencies, and the departments themselves are obeyed."² However, the Glassco Commission found that the audit functions, particularly the pre-audit function, "resulted in an excessive amount of repetitive checking that tended to dilute the sense of responsibility in the department and recommended that these responsibilities be transferred to the departments."³ The Treasury Board is currently reviewing these recommendations to prevent a collapse of the financial controls established.

The vote structure itself imposes elements of control. The manner in which programs by activities are divided into votes is dictated by the needs of parliamentary review and control. Most programs in Canada contain both operating and capital expenditures. Many also have one major transfer payment of grants and subsidies. These three elements are important on a government-wide basis. Trends in operating costs should not be obscured by the year-to-year fluctuations that occur in capital programs. In addition, Parliament and the Executive have a special interest in the effect of capital programs on the economy and the flexibility to adjust these programs to respond to economic circumstances.⁴

The Glassco Commission found that it was not necessary to divide

¹Ibid., p. 27.

²Ibid., p. 27.

³Ibid., pp. 27-28.

⁴Ibid., p. 28.

the votes into the three separate budget requests of operations and maintenance, capital, and grants and subsidies and others. Instead, they recommended that the votes be 'netted' or combined together. According to the Commission, vote netting would "provide management with greater incentive to improve service and to collect the revenues generated; allow a department to adjust its services to meet changes in demand; and provide a clear test of the real importance the public attaches to the service as evidenced by their willingness to pay."¹ But the Treasury Board noted certain disadvantages to the vote netting system, such as curtailment of a program or activities because of:

1. Short-fall in anticipated revenues.
2. Delay in receipt of monies for services provided.
3. Restrictions on available funds in the early part of the year when expenditures are being incurred but revenues have not yet been granted.²

The Treasury Board has accepted the recommendations of the Glassco Commission regarding vote netting but has not established a general policy to be adopted by the departments and agencies.

Summary

Financial amangement practices of the Canadian government have evolved slowly throughout Canada's 100 year history. After the 1900's, a concerted revision of existing policies and practices was undertaken to strengthen control of finances. The existing financial establishment, consisting of the Minister of Finance, the Treasury Board, the Comptroller of the Treasury, and the Auditor General, has not been significantly changed in recent years although certain of their functions have been modified to reflect current

¹Glassco, Royal Commission, pp. 62-63.

²Benson, Financial Management in Canada, p. 29.

financial management trends. The budgetary cycle remains unchanged.

However, the Glassco Commission, having investigated the financial management status of the government and its departments and agencies, noted weaknesses in budget development and control. The government adopted these recommendations and the Treasury Board was assigned the responsibility for ensuring implementation throughout the government. The detailed study of budget preparation and reporting presented a view of budget development that had to be adopted by the Department of National Defence.

Based upon the foundation provided by the surveys of the development of unification and integration of the armed forces and the increased financial management control initiated by the Glassco Commission, Chapter IV will evaluate the effects of these concepts on the defense organization and its budget development procedures.

CHAPTER IV

UNIFICATION AND THE ROYAL COMMISSION: THEIR EFFECT ON THE DEFENSE ORGANIZATION AND BUDGETARY PROCESS

Introduction

Integration and unification forced organizational change on the Department of National Defence. Since 1966, the Canadian Armed Forces has been "suffering growing pains of a completely unified defence establishment as well as the restructuring of its forces to a concept of high mobility."¹ Inflation has been increasing and the Department of National Defence is restricted to a fixed annual defense budget of \$1.8 billion until 1971. The forces have already been reduced from pre-integration and unification levels in 1963 of 124,000 to 98,000. Still to be reduced are 16,000 military and 5000 civilians to achieve an overall strength of 82,000 military and 30,000 civilians.² While the Department of National Defence has been enduring these organizational changes, it had to respond to the recommendations of the Glassco Commission affecting the department's budget policies, practices, and organization. The Commission noted that there was a need to improve the financial management controls within the department.

It was fortunate that the move toward integration and then full unification coincided with the Glassco Commission report, for the objectives of increasing effectiveness and efficiency were compatible.³ Those aspects

¹Powell, "Building a Fortress Canada?", p. 50.

²Ibid., p. 50.

³Canada, Department of National Defence, Office of the Comptroller-General, "Critique on Unification and the Defence Budget," February 1971, p. 1.

of integration and unification and Canadian financial management, which have been previously surveyed, formed the foundations on which the Defence organization approached these two concepts. The unification of the three services under a single Chief of Defence Staff and the reorganization of the force structure were exceedingly "propitious and enabled the development of a single Defence Program within the context of Planning-Programming-Budgeting System."¹

The introduction of Planning-Programming-Budgeting System (PPBS) into the defense system was a compatible undertaking, for the system would function within the current governmental budgetary system.² The Glassco Commission noted that PPBS "acts as a means of providing all levels of management with targets or objectives so that performance of each may be measured."³ PPBS also provides a check on "the efficiency with which available resources, material or human, are used . . . the explosive growth in scale of government expenditures necessitates the adoption of modern and efficient management methods, similar in many aspects to business."⁴ While the Canadian military establishment is small, it permits the development of a less complex and formal set of procedures for improving effectiveness and efficiency.

Defence Budget Development Prior to Unification

Prior to 1964, financial management and military planning in each of the three services were treated as independent activities. The first "falling within the province of the comptrollers of each service and the second within the province of each of the three Vice Chiefs of Staff. Both were "

¹ Ibid., p. 1.

² Glassco, Royal Commission, p. 94.

³ Ibid., p. 95.

⁴ Ibid., p. 95.

brought together by the Chairman of the Chiefs of Staff Committee."¹ The Chairman of the Chiefs of Staff was responsible for coordinating the military plans of the services although he did not possess executive authority but merely acted as an advisor to the Minister of National Defence and coordinated efforts of the armed forces toward fulfillment of the department's objectives. These plans, done in terms of objectives of expenditures, e. g., military pay, construction, operations, were projected for one year. Consequently, military planning and budgeting were on completely different levels. Military plans were prepared largely without regard to resource constraints and costs of these plans were always far in excess of the budgets the government was willing to grant. There were in reality a compilation of unilateral service plans rather than any attempt to present a unified defense plan. To a great extent the order of priority of forces, weapons systems, and activities was left to each military service. Therefore, imbalances existed in the overall defense program.

At the same time that each service was preparing its current one year budget request, it also prepared its own five-year program, which reflected the commitments and requirements for each year. Collectively, these programs were known as the 'Mark Document,' which was submitted to the Chiefs of Staff Committee for review. This document described the annual requirements of each service in terms of manpower, major equipment and money.² However, the 'Mark Document' was plagued with defects of unrealistic service demands. After the 'Mark Document' was reviewed by the military chiefs, it went to the Deputy Minister of National Defence and to the Treasury Board Staff. The results of these reviews were transmitted to the Minister who in consultation with the Treasury Board, derived the budget for the next fiscal year. Another problem

¹ Comptroller-General Critique, February 1971, p. 1.

² Pinet, "Improved Budgeting and Programming," p. 79.

of the 'Mark Document' was that it never received official sanction. Therefore, it could not be used as authority for any action or as the sole and basic tool for preparing the annual estimates. Since there was no official sanction, there was no effort made to maintain the document in an up-to-date posture. Postponement, reduction, and cancellations were not incorporated into the document. "A philosophy of trying again next year was frequently practiced, resulting in an unrealistic backlog of projects awaiting a more favourable political climate for resubmission."¹ These plans therefore tended to be substantially beyond the level likely to be achieved. Although the document gave the impression of long-range planning, it was prepared from the beginning each year and tended to represent service hopes rather than feasible plans in terms of available resources.² Thus, under the pre-unification system, defense plans and programs received official sanction and became the basis for action only in so far as they were reflected in the parliamentary approved estimates.

The gap between military planning and the actual dollar resources available for budgeting left the Minister of National Defence and the government with "no alternative but to cut-back military programs each year in the course of budget review."³ The choices and decisions in forces and weapons systems by each individual service had to be made without adequate information as to their future cost implications or their cost effectiveness relationships in terms of the missions they were designed to perform. Budget review had to be completed within a few weeks. Consequently, budget cuts were not often systematically reviewed. Thus, decisions with long-range resource implications were often made prematurely under pressure from the separate service or without

¹Ibid., p. 77.

²Ibid., pp. 80-81.

³Comptroller-General Critique, February 1971, p. 1.

adequate consideration of all the major alternatives. The limited time for decisions often led to over-commitment. Later these decisions frequently "resulted in uneconomical program 'stretch-outs' or the outright cancellation of projects on which large sums had already been invested."¹

There was an obvious need for a single, integrated program data system which would serve to keep management informed about the full cost of its decisions or options and about the current status of the defense program, both in terms of its various mission capabilities and in its entirety. If needed, timely corrective action could be undertaken. For this it was clear that better cost data, better cost control, and better financial management techniques would be required. It was the acceptance by Defence of these facts along with the recommendations of the Glassco Commission that led to the decision to move toward full unification of the budget organization in conjunction with the direction of Treasury Board toward "the introduction of the concept of management referred to as Planning-Programming-Budgeting System, and associated with it, the Responsibility Accounting System."²

Organization of the Unified Defence Budget Office

The development of the budget for the Department of National Defence since unification and the recommendations of the Glassco Commission rests with the Comptroller-General branch of the Canadian Forces Headquarters, Ottawa. The organization is composed of the Comptroller-General, normally a Brigadier General; a Deputy Comptroller-General; a Director General Organization and Manpower Systems; and the Director General Finance. (See Figure 4 --- Organization

¹Ibid., p. 2.

²Benson, Financial Management in Canada, p. 30.

of the Defence Budget Office Since Unification, p. 58.)

The responsibilities of the Director General Finance include pay services, mess and institute funds, cost studies, automated systems, and financial arrangements and management.¹ Within the office of the Director General Finance are five directorates: Director Budget, Director Financial Management, Director Costing and Financial Arrangements, Director Pay Services, and Director Automated Systems. The Director of Costing and Financial Arrangements is a small operation of about 25 officers with specialized training in mathematics and statistics. The office has two functions. It acts as a service bureau for other headquarters directorates in the matters of costing and provides the functional commands with assistance on matters relating to costs. The office is interested in preparing accurate past and forecast costing and in the techniques of developing and using new cost factors.² The objectives of the office are to produce costs for planning purposes, for recovery purposes, for developing man-year costs of the forces for inclusion in the annual estimates, and for producing cost data to answer numerous queries raised in the House of Commons.³ The financial arrangements section of the office was initiated as a result of the increasing complexity of the Canadian Armed Forces operations conducted in conjunction with other nations' military forces. Thus, this section is responsible for the financial aspects of agreements with other countries and their forces as well as for various financial arrangements within Canada.

The Directorates of Budget and Financial Management complement each other. In examining these two directorates which are responsible for the development of the Defence budget, their responsibilities will be studied in terms

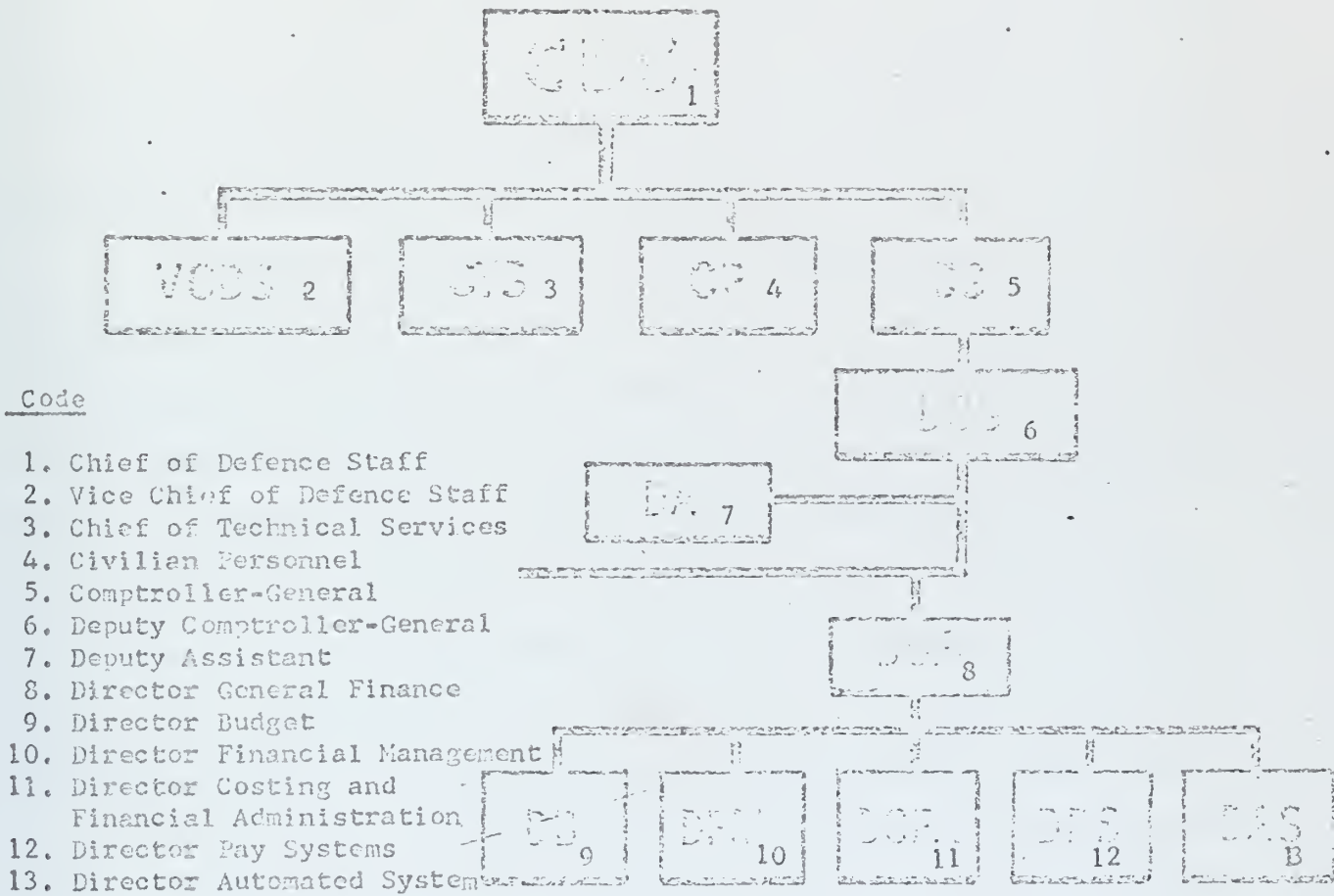
¹Glassco, Royal Commission, p. 67.

²Canada, Department of National Defence, Canadian Forces School of Management Brief on Unification and the Budget, March 1969, p. 4.

³Ibid., p. 5.

FIGURE 4

ORGANIZATION OF THE DEFENCE BUDGET OFFICE SINCE UNIFICATION



Source: Canada, Department of National Defence,
Canadian Forces School of Management
Brief on Unification and the Budget,
March 1969, p. 18.

of the Defence budget cycle and its relationship to the previously surveyed Canadian budget cycle.

The Defence Budget Cycle

In May the Director of Budget requests the various responsible directorates of headquarters and material command to submit first draft estimates detailing their requirements for the forthcoming fiscal year. (See Figure 5 --- Defence Budget Cycle Since Unification, p. 60.) The estimates are prepared based on past experience and the status of anticipated revenues. They are in line with the detailed 'Integrated Defence Program,' a document which replaced the 'Mark Document' following unification of the three services.

Estimates must be forwarded to the Director Budget by 1 August. His office then consolidates the estimates. The total is compared with the predetermined maximum amount which cannot be exceeded. The Comptroller-General and the Director Budget are informed of the budget ceiling imposed by the Minister of Finance on direction from the Cabinet. Currently, that budget ceiling is politically frozen at \$1.8 billion. The estimates usually exceed the maximum authorized, so it then becomes necessary to review the estimates and determine areas in which reductions can be effected. During the month the estimates are critically reviewed by the Comptroller-General and the service staff officers.

By September the Defence budget is submitted to the Deputy Minister of National Defence Staff with representatives of the Comptroller-General's staff present. After all problems are corrected and the review approved, the estimates go to the Department of National Defence Review Committee in October. This committee is composed of the Deputy Minister of National Defence, the

THE BUDGET CYCLE

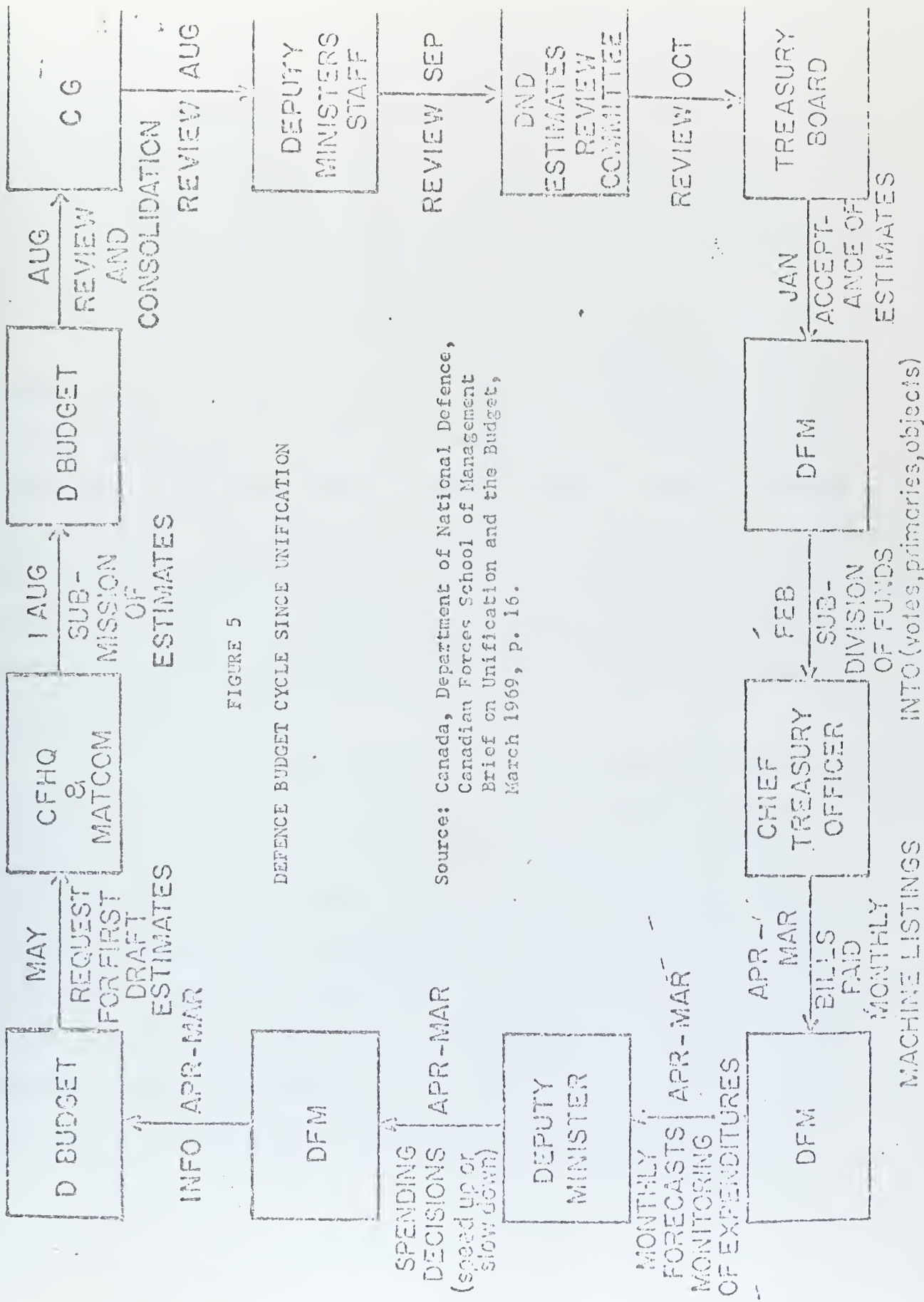


FIGURE 5

DEFENCE BUDGET CYCLE SINCE UNIFICATION

Source: Canada, Department of National Defence, Canadian Forces School of Management Brief on Unification and the Budget, March 1969, p. 16.

INTO (votes, primaries, objects)

MACHINE LISTINGS

Chief of Defence Staff, the Chief of Technical Services, the Chief of Personnel, the Comptroller-General. Members of the Treasury Board are present both at the Deputy Minister Review and the review by the Department of National Defence Estimates Review Committee so that they will become familiar with the proposed estimates in detail. When the budget has reached this stage of development, the budget figures are in acceptable amounts. They are then developed into book form and forwarded to the Treasury Board.

Throughout the month of December the Treasury Board reviews the budget estimates for Defence. In January a letter from the Treasury Board will be sent to Defence stating that the estimates have been accepted and approved in principal, although the letter may restrict certain programs or request a stop on a program until specific higher approval is received. This letter indicates that the Department of National Defence is ready to proceed with the new fiscal year's programs even though the estimates have not been presented to Parliament. The actual debate on the defence estimates takes place after the fiscal year has started.

It is at this stage that the Director of Financial Management assumes the responsibility, for it is the function of that office to manage the current fiscal year funds. The office first breaks down the \$1.8 billion budget into votes, which are broad categories. Then each vote is further subdivided into accounting primaries. These in turn are further subdivided into objects of expenditures, which is the lowest level at which funds may be managed. When this project is completed, the funds are released to the various treasury offices throughout Canada. Each expenditure will then be coded as to vote, primary, and objective for expenditure with a consolidated monthly machine listing of

expenditures forwarded to the Director of Financial Management by the chief treasury officer. The expenditure run is closely monitored, for it forms the basis of the monthly forecast prepared for the Deputy Minister of what will be spent through the end of the current fiscal year. From this forecast, decisions are made as to whether Defence should increase or decrease its spending. This procedure will eventually be replaced with the Defence Programs and Responsibility Accounting Systems.

After Parliament has debated the bills and approved the appropriations, the defense budget has reached its final stage for the current fiscal year. There will be control aspects employed to ensure that the department adheres to Parliament's budget objectives for Defence.¹

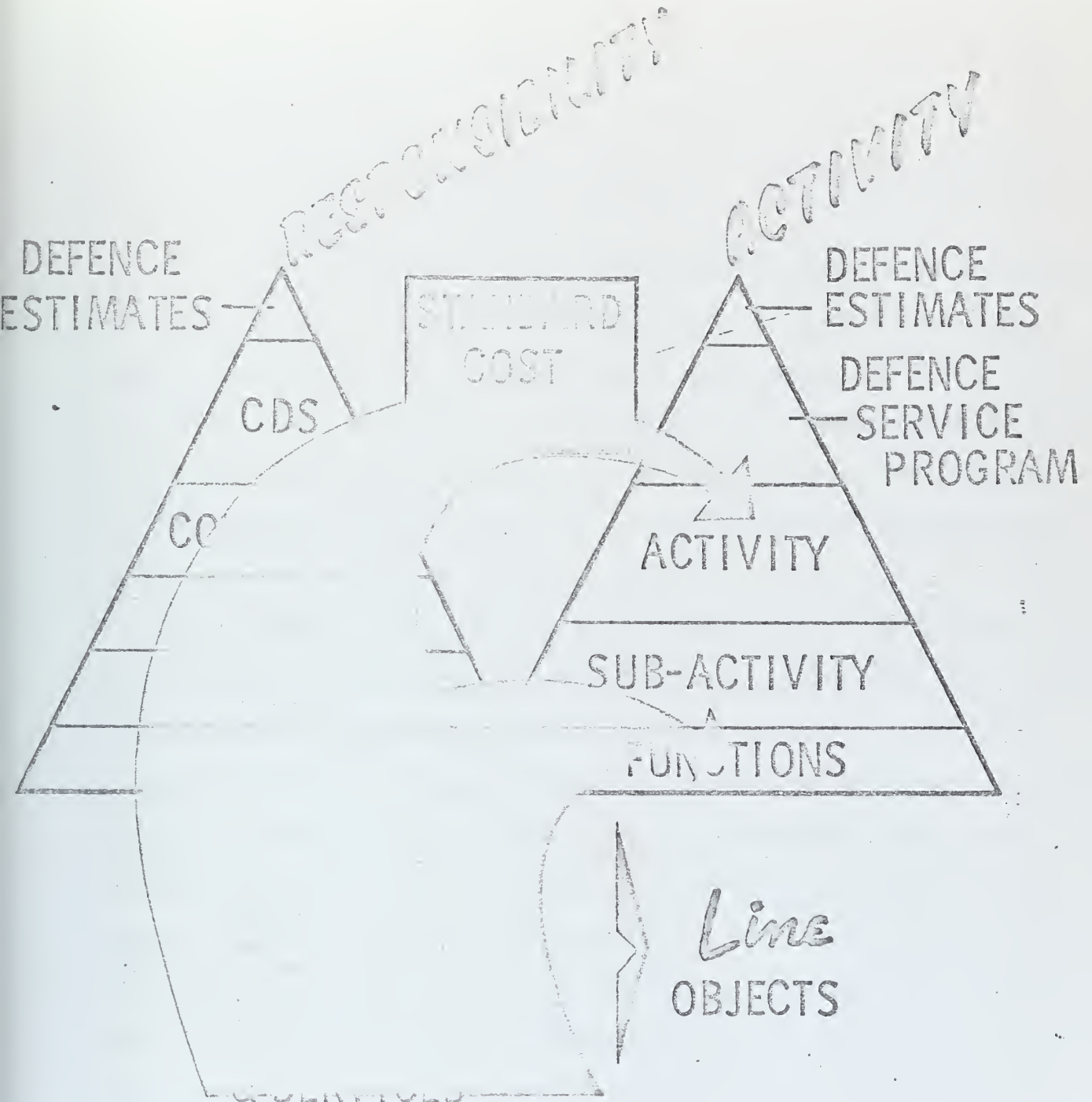
Adoption of PPBS in the Defence Budget Cycle

To comply with the directives of Treasury Board and to meet the requirements imposed by unification, Defence employed in 1966 a management consulting firm, assisted by several officers, to develop a concept of financial management practices to achieve the Glassco Commission objectives and then to supervise implementation. The objective of the study was to determine what steps were necessary to implement the Treasury Board directives of responsibility centers and accounting data. (See Figure 6 --- Responsibility and Activity Accounting for Defence Budget Development, p. 63.) In the preparation of the future years' budget estimates, each responsibility center will have a clearly defined objective and will determine its budget in terms of resources required to achieve the assigned objective of manpower, premises, i. e., buildings, utilities, etc., equipment and other supplies and services. These budgets will

¹Ibid., pp. 5-11.

FIGURE 6

RESPONSIBILITY AND ACTIVITY ACCOUNTING FOR DEFENCE BUDGET DEVELOPMENT



Source: Canada, Department of National Defence, Financial Management Pilot Study: Air Transport Command, Prepared by Simpson, Riddell, Stead and Partners (Ottawa: Queen's Printer, 1966), p. 27.

be challenged at each level up the chain of command and will together form the command budget and, when consolidated with other commands' budgets, will form the defense estimates. Standard cost modules will be used for direct costing, other cost for capital and for fixed expenditures. Spending would be recorded on standard forms broken down into costs and variances to show deviations between planned and actual estimates. (See Figure 7 --- Defence Responsibility and Activity Accounting Pyramid, p. 65.)

But implementation and direction toward PPBS were not simple. Before PPBS was considered, it was said that "management philosophy and procedures which were suitable to meet yesterday's needs cannot adequately cope with today's defence problems and those of the future."¹ The Glassco Commission looked at the former budget system and noted that it was "inadequate for efficient management and was of limited value for planning and control, adversely affecting review of the estimates by Treasury Board."²

To meet the challenge of a growing and complex defense effort, the Deputy Minister formed a 'Defence Program working Group' to establish a defense programming system suitable for meeting the current and future needs of the Department of National Defence. The group started meeting in November 1963 and began what evolved into PPBS for Canada based on a study of Hitch's works.³ The Canadian system was cast in the same mold, except for deviations necessitated by a different political and organizational environment, of that of the United States PPB system. PPBS must be adaptable to the environment in which it is expected to function. In the large-scale and complex Department of National Defence, PPBS is a dynamic management function. To remain viable, the system

¹Pinet, "Improved Budgeting and Programming," p. 82.

²Glassco, Royal Commission, p. 72.

³Pinet, "Improved Budgeting and Programming," p. 83.

ACTIVITY



Source: Canada, Department of National Defence,
Financial Management Pilot Study: Air
Transport Command, prepared by Slapson,
Kiddell, Stead and Partners (Ottawa: Queen's
Printer, 1966), p. 27.

must be flexible and provide for changes from policy decisions affecting defence, availability of funds, planning of procurement programs, and manpower level changes. It must consider the long-range and short-range effects on the military activities.¹

Thus the goals of PFBS in the Canadian military establishment were basically defined when the Minister of National Defence Hellyer issued his White Paper on Defence in which he discussed, indirectly, a management system for the armed forces.

It is intended to introduce into the Department of National Defence a management system for planning and controlling major defence programs at the departmental level. This system will display various components of the long-term defence program in suitable detail over a significant period of time. The system will provide a means of expressing various force structures, weapon systems, logistics arrangements, and other military activities in terms of their immediate and long-range costs.

The main objectives of the system are:

1. To assist top management in the department in decision-making by providing the means of analyzing and assessing various military programs and activities in terms which will relate military effectiveness to financial costs, manpower requirements, equipment needs and other.
2. To provide the type of data which will enable the effects of defence decisions to be clearly expressed in terms of forces, manpower, equipment, and money both in the short-term and over a period of years.

For this purpose, the total Canadian defence structure will be grouped into a number of major programs. These programs will cover all arms of the services and will be expressed in terms of major military missions or objectives. Each program will be analyzed in appropriate detail to reflect the military and civilian manpower, the major equipment, and the anticipated costs that are programmed over a period of years for the various elements of the program. Projections of each program will be reviewed annually.

This system will enable Defence Programs to be examined and considered in relation to their overall military effectiveness from

¹Ibid., p. 87.

the standpoint of achieving a particular mission. It is hoped that the system will enable defence resources to be allocated to Defence Programs in the most effective manner from a view point of ultimate military output and in accordance with a clear and detailed plan.¹

By 1965 there were some noticeable weaknesses in the system proposed by the committee. The system did not entail a comprehensive, long-term defense program approved by the Minister to be developed into a tool for coordinating the planning and budgetary processes. That system did not provide a systematic procedure for the preparation and review of national securities policies at a level above the Minister of National Defence. There was no common frame of reference within which programs or amendments could be evaluated within the context of the overall defense program.² There was not enough data available for decision-making. It did not bridge the gap between planning and budgeting. It did not form the only authorized basis for preparation of the estimates since it was impossible to translate the cost of program elements for the next fiscal year into budgetary appropriation format. It did not reflect and evaluate long-term effects of budgetary reductions or other decisions imposed from above and there was no follow through in the system. Another weakness was that there was a need for the defense effort to be expressed in terms of missions to be accomplished.³

In review, it is evident that there were significant failings in the proposed system of PPB as originally conceived by the committee. After an evaluation of the system in effect in 1965, additional corrective recommendations were made. The recommendations for an improved PPB system were for it to "provide a means of reflecting long-term effects of decisions, such as budget cuts, postponement of projects or procurement, imposition of manpower

¹Hellyer, White Paper on Defence, p. 20.

²Finet, "Improved Budgeting and Programming," pp. 83-85.

³Ibid., pp. 83-85.

ceilings, in terms of specific programs over a specified period of time."¹ Another new objective of the system would be that "the effects of today's decisions on future activities could be daily identified and written into the detail of the long-term program. The programming could be done on a realistic basis."² Changes to approved programs could be initiated from lower levels within certain parameters established for approval. Annual review of the programs to reflect the approved changes as well as implementing policy changes resulting from current and anticipated national and international conditions could be better effected under the revised system.³ Since budgeting and programming are primarily "concerned with control and effective allocation of limited resources toward the achievement of an almost inexhaustable range of objectives,"⁴ then every effort has to be undertaken by Defence to ensure that a successful PPBS program is implemented. The errors of the earlier system have been eradicated and the system is progressing to another phase in the development of a totally integrated system of information for Defence.⁵

The move toward PPBS and a total management information system will permit a flexible approach to the government's proposed alteration to the current budgetary cycle. The budget cycle will be altered as follows:

1. On 1 June the departments will have to submit their estimates received from within the department to the departmental budget consolidation office.

2. The budget offices within the departments will review the estimates and propose adjustments during the months of June, July, and August.

3. By 1 September the ceiling for the Estimates will be determined by the government and the information will be forwarded to the departmental budget offices to permit final budget estimate adjustments.

¹Ibid., p. 85.

⁴Ibid., p. 91.

²Ibid., p. 87.

⁵Ibid., p. 76.

³Ibid., p. 88.

4. On 1 October the Defence estimates are to be forwarded to the Minister of Finance for review.

5. After review, the Minister of Finance will forward the Defence estimates to the Treasury Board, where they will be examined to ensure that the estimates are compatible with the predetermined ceilings established by the Cabinet.

6. On 1 January the Treasury Board will send the reviewed defence estimates to the Cabinet, which will examine them and give final approval.

7. Between the end of January and the first of April the Department of National Defence will re-examine their estimates and undertake any necessary adjustments caused by the time lapse since the preparation and submission of the original data and the classification of the expenditures by Treasury Board.

8. On 1 April the Defence estimates will be tabled before the House of Commons and then sent to a Standing Committee on Defence for review, a procedure expected to last for six to eight weeks.¹

Results of Unification on Defence Budget Development

One of the significant achievements of integration and unification has been the reduction of personnel, military and civilian. In 1963, before the concept was seriously considered, there were 125,000 military and 50,000 civilians in the Department of National Defence.² The Royal Canadian Air Force had grown the most rapidly until it reached a size three times as large as it was in 1951 at the expense of the Canadian Army and the Royal Canadian Navy.³ At that time the Glassco Commission projected that "if the armed forces were reduced from 125,000 to 109,000 that would leave only 40% of the military personnel in support functions with a direct savings in salaries and benefits of \$20 million per year."⁴ The cost of military personnel had risen from a

¹Lindsay Telephone Interview, 8 February 1971.

²Glassco, Royal Commission, p. 61.

³Ibid., p. 64.

⁴Ibid., p. 83.

1951 figure of \$184.3 million or 23.6% of the defense dollar to a 1962 level of \$616.4 million or 38.2% of the defense dollar.¹ Thus, one half of the total expenditure for defense was for personnel, more than that of all of the other departments together. Military personnel accounted for 26% of 500,000 government employees. Defence was spending 87% of all 1961-1962 expenditures on acquisitions and upkeep of equipment and 60% of the total expenditure on materials and supplies.² Thus, according to the Glassco Commission, any reduction of military personnel and the using of civilians would save funds in non-combatant jobs. Therefore, the initial effect of unification was a reduction in military and civilian personnel expenditures which were consuming large portions of the defense budget and requiring a significant portion of time in relationship to those expenditures. In the Department the unification of the three services into one service resulted immediately in the reduction of headquarters budget offices and personnel staffs. What resulted was a slightly enlarged headquarters staff. However, the overall reductions in personnel, related expenses as well as overhead were significant.³

The Glassco Commission found that the Department of National Defence was performing a duplicated audit function. Service audit personnel, numbering 600 with annual salaries of \$2.3 million, were mainly engaged in auditing stores, or inventories, and the "extent of the verification performed goes well beyond what may be regarded as necessary."⁴ The Commission therefore recommended that the audit service be removed from Defence to the Chief Auditor branch of the government. Since that recommendation, there has been a reduction in the

¹Ibid., p. 80.

²Ibid., pp. 63-64.

³Lindsay Telephone Interview, 8 February 1971.

⁴Glassco, Royal Commission, p. 76.

audit function staff. However, the need to maintain some internal Defence related auditors exists.

Regarding the budget dollar, the competition for resources is no longer between the three service Chiefs but between alternative means of carrying out the roles assigned to the armed forces by the government. The streamlining of the budget development process has been enhanced by the removal of the former service Chiefs and the results are more along the lines of programmed objectives than the individual desires of the services. There is still some competition between the staffs of the sea, air, and land environments as to how the roles can be performed, but "this is healthy in that the review can follow the objective approach of Program Analysis of the PPBS process."¹

One of the effects of unification was the grouping of the three services' inventories together to enable Defence to purge duplications and obsolete material from the defense system. In its report, the Glassco Commission noted that "armed forces possessed very large inventories, the estimated value of which ranged from \$500 million to \$750 million. By building up or drawing down these huge quantities of material, the real cost and cash expended could be greater than in other departments."² Effective control was lost by Parliament. With the unification of the inventories, improved budget planning became a reality, for the combined inventories were better managed on a predictable demand basis. Consequently, resources that were restricted to Defence were able to be used for purposes other than inventory build-up.

Another budget recommendation made by the Glassco Commission was the consideration of the accrual method of accounting. Budgets would be developed on a cost rather than cash basis with month to month evaluation to detect

¹Comptroller-General Critique, February 1971, p. 2.

²Glassco, Royal Commission, p. 63.

important variances. Accrual accounting would automatically reflect the variances in the military inventory, a danger point in the cash system. A distinction was necessary between inventory of combat consumables acquired for war use and those of an operating and maintenance nature. Because of high obsolescence of war-like equipment, costs should be absorbed as received, while ordinary operating materials and consumable supplies should be chargeable to operations as they are withdrawn from stores.¹ This would enable better management of the budget dollar and would increase the effective use of the budget dollars available. With a consolidated inventory program and an accrual method of accounting, Defence would be able to reduce the record maintenance of its programs and more effectively project needs for the years ahead. As of this date, the Treasury Board, while having had government approval of the concept of accrual accounting, has not developed an approach for implementation within the present framework of the budget system. The House of Commons has the same reaction as the United States Congress to accrual accounting in that they feel it will cause them to lose historical perspective of budget developments. They fear the system, and since integration and unification, they lack confidence and respect for it.

The Glassco Commission and unification of the armed forces have created numerous changes within Defence and also have created problems. The results have been acceptance of concepts but not necessarily implementation. Often Defence has encountered internal resistance to change or to adoption of approved concepts and principles. According to a spokesman for the Comptroller-General's office, the new procedures previously discussed, particularly PFBS, have not progressed as quickly as had been desired. PFBS was introduced in 1967

¹Ibid., p. 63.

but is still not totally implemented.¹ The major problem remaining is that the commands and management structure differ from the PPBS structure in meeting government objectives for defense planning and budgeting, causing a gap.² Consequently, the present budget office in Defence spends a "great deal of time reconciling the two objectives with the budget."³ The fiscal year 1971 budget was prepared by the logistics staff at Headquarters. However, with the implementation of various aspects of PPBS and responsibility center management, the fiscal year budget for 1972 will be developed by the commands in the field and then forwarded to headquarters for consolidation.⁴ This is a significant step toward development of the recommendations proposed by the Glassco Commission, translated by the Treasury Board into workable directives, and adopted by Defence along with its concept of unification.

One of the concerns of an official in the office of the Comptroller-General was "whether PPBS will result in savings in the long-run."⁵ They are currently spending more dollars than under the three services in developing the unified system. The concern is that the initial development costs will not be returned in long-run savings through reductions of personnel and administrative reporting. At this time, it is difficult for the Comptroller-General's office to recognize, except by prediction, the overall savings that will result from the implementation of PPBS.

Under unification the budget development process called for centralization of activities into one headquarters office. The obvious benefits

¹ Lindsay Telephone Interview, 8 February 1971.

² Powell, "Building a Fortree Canada?", p. 50.

³ Lindsay Telephone Interview, 8 February 1971.

⁴ Comptroller-General Critique, p. 2.

⁵ Lindsay Telephone Interview, 8 February 1971.

of having one staff instead of three have been recognized. What has been established is a sound nucleus of personnel with an intimate knowledge of policies and procedures for defense budget development and an appreciation of the struggles to achieve the current system. There is to be some decentralization to the field activities under the responsibility center concept in which the lower levels of commands will develop their budget estimates for base consolidation and then submission to headquarters for total consolidation. This complies with the Treasury Board manual recommendations for budget development. There is some concern with the Comptroller-General office as to whether there will be greater efficiencies achieved through this decentralization or whether it will result in creation of additional staffing assignments in the field to develop the budgets that have been completed since unification on a headquarters level.¹

While the overall defense structure is being reduced from a personnel standpoint, there is some concern with the Comptroller-General office that the staff will be too large in relationship to the reduced force structure. They are concerned about becoming top-heavy with senior military and civilian personnel. At this time there appears to be no real savings since there are additional staff personnel under PPBS, thereby decreasing its immediate advantage.²

But the concept of PPBS has been stressed by Defence and despite some of the internal problems, it is proceeding. Where there were three services developing their own individual demands for fund allocations, there are now seven major programs that carry explicit approval of the Minister and serve as approved directives to Defence for budget development, planning, and

¹Ibid.

²Ibid.

control purposes.¹ Each program is analyzed into principal components and sub-components, such as operational force requirements, logistic and support forces, mission training, and command and control. Each component and sub-component in turn is analyzed into elements, consisting of units or groups of units. Program elements are the basic building blocks of the system. (See Figure 8 --- The Basic Building Block, p. 76.) The elements are priced and data is maintained for each element, which is then analyzed in terms of forces, equipment, financial estimates, manpower, and other resource data. The seven major programs represent the overall approved military plans expressed in terms of missions to be accomplished in order to achieve national and international defense objectives. Future documentation will describe the inputs of forces, equipment, manpower and expenditures required to support programs over a five year period.² The advantages of this defense program will be that the program will receive approval in principle by the government which would then lead to a programmed budget.³

Unification and the recommendations of the Glassco Commission affecting the budgetary process and procedures were evaluated by the Chief of Defence Staff, General R. R. Sharp, as the "one solution for Canada."⁴ He went on to report that

. . .it seems right for a nation our size and in our circumstances. But, it doesn't follow that it would necessarily be right for all others. It has, of course, meant overall cuts in the armed forces, which no military man necessarily wants to see. However, it is working well and it certainly would have been far more difficult to restructure the forces in line with the present budget restraints if we still had three services. In this light alone,

¹Pinet, "Improved Budgeting and Programming," pp. 85-86.

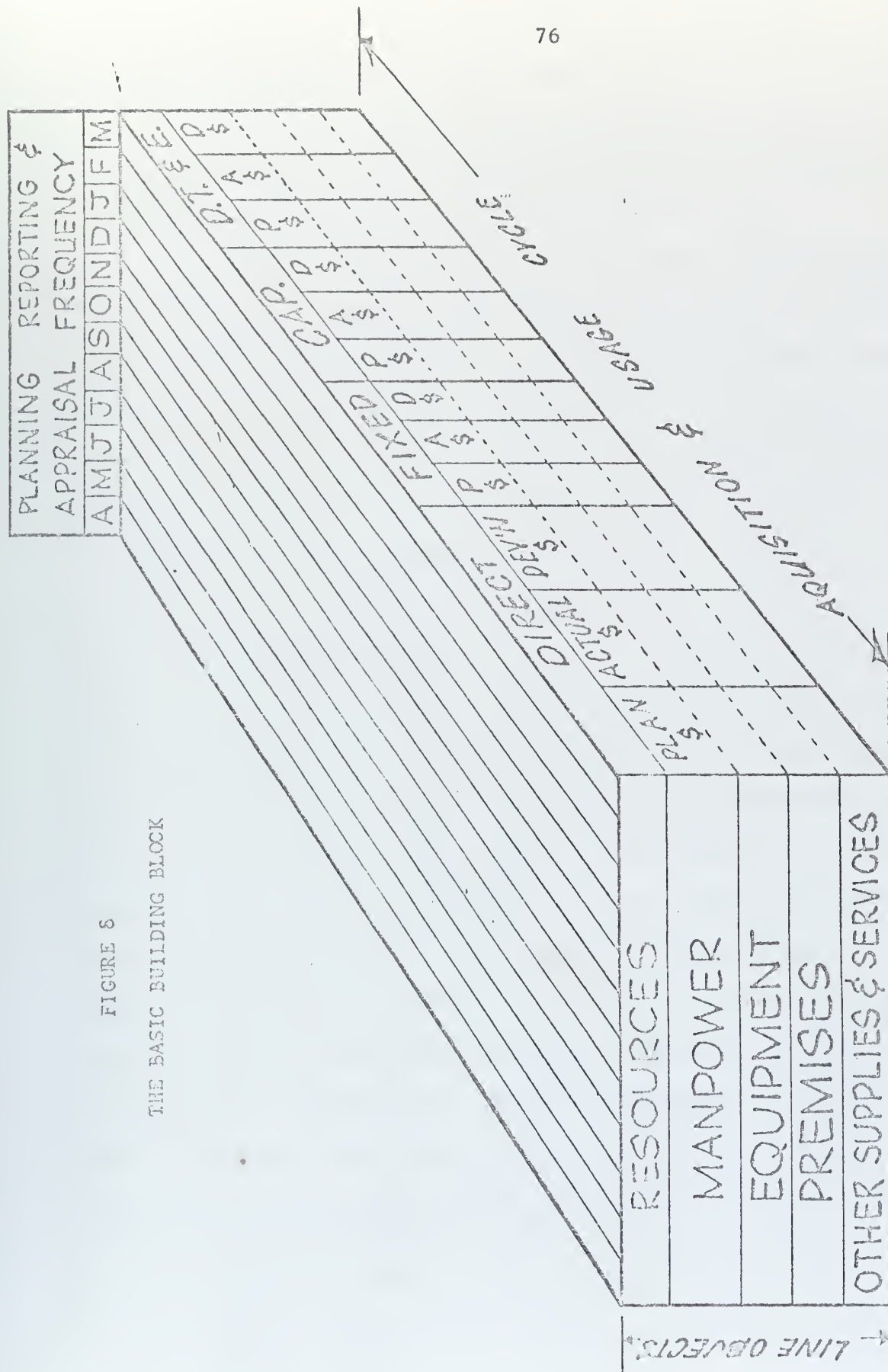
²Ibid., pp. 85-86.

³Ibid., p. 93.

⁴Powell, "Building a Fortress Canada?", pp. 52-53.

FIGURE 8

THE BASIC BUILDING BLOCK



Source: Canada, Department of National Defence, Financial Management Pilot Study: Air Transport Command, prepared by Simpson, Riddell, Stead and Partners (Ottawa: Queen's Printer, 1966), p. 34.

most top management feels that unification has paid for itself.

The cost of training is going down while efficiency is going up. Logistics are better, though full automation is probably some two years away. In the operational areas of air-sea/air-land we have now achieved better coordination than ever before.¹

An effect that unification and the Glassco Commission did not induce was the budget ceiling imposed by the government to last until 1971. Some critics have stated that the "fiscal restraints have affected Canadian participation in world military organizations."² Yet the positive aspect of the budget ceiling is that it has forced the Department of National Defence to respond with some degree of originality to budget development to ensure that the objectives of the government will be achieved. Originality in stretching the budget dollar was called for and the Comptroller-General responded. Not only did the Comptroller-General have to face a politically frozen defense budget, but, as Defence Minister Cadieux reported, "our defence budget is suffering erosion due to inflation each year."³ The introduction of a unified budget office assisted in reducing the strain on the budget development process, particularly with the use of the Defence Program objectives. While some programs had to be reduced or eliminated and large reductions in force promulgated, it was evident that a centralized budget office could adequately cope with the changes that were being introduced. The changes occurred rapidly, often submerging some of the refinements of budget development techniques that were anticipated for implementation. However, postponement permitted the Comptroller-General's office to pursue other immediate programs while gaining from the delays new equipment developments and improved procedures. To further combat

¹Ibid., pp. 53-54.

²Ibid., p. 50.

³Ibid., p. 52.

the costs of inflation and the reduction of available funds, the government began resorting to change through leaks to the press in hopes of mobilizing public opinion against some of the existing programs in a determined effort to reduce defense spending. This procedure assisted Defence in reducing programs that, while appealing to nationalistic pride, i. e., the scrapping of the only Canadian aircraft carrier because of large cost over-runs during an overhaul, were no longer required to meet current government objectives.¹

As unification becomes a working reality throughout the armed forces rather than on only a headquarters level, the use of PPBS in developing the budget for Defence will enable development of additional sub-systems that may lead to a Total Management Information System. The sub-system on which the office of the Comptroller-General is currently working is a standardized and automated pay system. Other sub-systems to be developed are an automated personnel management information system, an automated logistics support system, and an automated costing system that will produce a print-out in various presentation formats of the Defence Program in the PPBS process.² Without unification, according to the Comptroller-General's office, "it would not have been possible to obtain the agreement of the three services and the Deputy Minister's office to the single approach to the maintenance and production of information systems. There is little question that when these systems are fully operative, the data on which our Defence Estimates are based will facilitate budget preparation and submission."³

Summary

The Royal Commission on Government Organization paved the way for a

¹Toronto Globe and Mail, 22 July 1966, p. 3.

²Comptroller-General Critique, p. 3.

³Ibid., p. 3.

re-examination of the financial management practices of all the departments of the Canadian government. It also provided the impetus for the Department of National Defence to pursue integration, a recommendation originally little noted in the Glassco Commission report. The Minister of National Defence, Paul Hellyer, in his White Paper on Defence proposed that the services in order to meet the demands of budget reductions and inflation would approach the solution through unification of its three armed forces into a single force. The implications of such a radical departure were many; however, in the area of the defense budget development process, the Glassco Commission recommendations coupled with unification resulted in structural and procedural changes. These changes will be evaluated in Chapter V.

CHAPTER V

CONCLUSIONS

Introduction

An analysis of the effects of the radical concept of integration and unification of the Canadian armed forces on the defense budget organization and budget procedures was the objective of the thesis. Integration and unification did alter the course of Canadian military thinking; however, as the research progressed, it became evident that The Royal Commission on Government Organization was the single document that most directly promoted the eventual implementation of the concept. Its recommendation of constructive improvements to government-wide financial management techniques in conjunction with unification induced significant departures from traditional budget development procedures within the defense establishment's budget office. Before studying the effects that integration and unification as well as the Glassco Commission had on the Department of National Defence, the historical perspective of integration and unification was surveyed to establish a foundation for analysis.

Thus, the basis for integration and unification was the Glassco Commission, which stimulated a re-thinking of financial management procedures within the government. The Minister of National Defence Paul Hellyer's White Paper on Defence was a direct response to the Glassco Commission recommendations. In this document, Mr. Hellyer detailed his motives for undertaking

integration and unification. The first motive was economic. He wanted to reduce overall costs to allow for increased operational efficiency. Secondly, Mr. Hellyer wanted to stimulate the Canadian defense industry. Other motives were the creation of an independent, flexible force for a changing world, nationalistic pride, improvement of top level decision-making, and provision for more satisfying careers for military personnel. The overall effects of integration and unification were summarized by the Chief of Defence Staff, General R. R. Sharp, when he stated in late 1970

. . . a most important element is that we are being successful in healing the prime objections of individual morale and single service traditions. We also have the advantage of being an all volunteer force, which means our people stay longer, become experts and highly professional. As a result, you do not need as many people. We are going to pare down to 82,000 but we will have 82,000 professional career soldiers.¹

At the same time, General Sharp, in response to a question regarding Canada's involvement with its overseas commitments, particularly NATO, reported

. . . we have had no indications from the government that there will be more withdrawals from Europe after 1972. However, costs are going up and we have a fixed budget at this time. Our equipment will be running out at the end of five years. Also we program our force structure on a five year basis, which will end in fiscal year 1975-1976.

At that time we will be prepared to give our recommendations to Parliament, and the Government will have to decide.²

There had been some concern in some government circles regarding the reaction of the present government toward defense in its forthcoming White Paper. General Sharp has indicated it will be the government that will decide the future of the Canadian Armed Forces. In discussing the possible outcomes for the future, one source reported that "if the Trudeau faction remains in power with its apparent penchant for greater and greater retrenchment and a disinclination

¹Powell, "Building a Fortress Canada?", p. 53.

²Ibid., p. 52.

toward military matters, the Canadian Armed Forces may be faced with some stringent years ahead."¹

But to relieve the concerns of many within the Department of National Defence and within the government and opposition, the present Minister of National Defence, Donald Macdonald, in an interview with The Montreal Gazette on 13 April 1971, reported briefly on the status of unification, which will be detailed in his defense White Paper in May or June 1971. Mr. Macdonald feels that "the single unified service with its integrated command structure has proven not only feasible, relatively economic and efficient, but in the context of the 70's may be more useful than predicted in the 60's."² General Sharp, in the same article, stated, regarding the old tri-service committees, that "they were once the most frustrating things," but now that the defense staff is composed on "functional lines with advice in depth, current operational expertise is more readily available, decisions are made faster, and with more cooperation with civilian policies." All of the old battles about capital expenditures and equipment programs, which used to be fought up to the Minister, are now resolved in the defense staff, on which members from all elements continue to sit.

General Sharp went on to report that there have been "substantial savings as a result of unification, particularly in the reduction of triplification in logistics, communications, and training." A recent study undertaken by Canadian defense economists shows that the Canadian defense budget, frozen at \$1.8 billion, would have risen to around \$2.3 billion had the three services been maintained. At the same time, because of the budget freeze which will not be lifted until early 1973 and because of increasing costs of military

¹The Montreal Gazette, 13 April 1971, p. 7.

²Ibid., p. 7.

equipment, the percentage of capital equipment to housekeeping operations has not risen to around 35% as Mr. Hellyer had predicted. It is still around the 23% level.¹ Mr. Macdonald summarized his remarks by admitting the military services "had to put up with a series of shocks during the past five years, beginning with the integration-unification process itself, coupled with the foreign policy review and its de-emphasis on NATO commitments and the greatest shock of all - the budget freeze and force cutbacks."

Canadian Financial Management Reviewed

With integration and unification a reality in the Department of National Defence, the thesis then concentrated on examining the financial management procedures of the government. It was concluded that while financial controls developed slowly within the framework of the government, they nevertheless progressed with the demands for better management and control of the nation's resources. The financial management positions and the budget cycle have remained virtually unchanged since the early 1900's. However, The Royal Commission on Government Organization, created in 1960 and reporting in 1963, expressed concern for the lack of financial control, the increased use of manpower, and spiralling costs of government. The Glassco Commission called for immediate corrective actions. The Treasury Board with the Department of Finance was charged with the responsibility for developing the procedures to be adopted by all of the departments and agencies after the government had accepted the recommendations in principle. To meet the basic criteria for better control, better manpower utilization, and better economies, the Treasury Board called for budget development in terms of Program Budgeting and

¹Ibid., p. 7.

and Responsibility Accounting to eliminate budget development in terms of Expenditures by Objectives. There was a call for decentralization of the budget process to all levels within a department while at the same time increasing the accountability of all lower level managers.

Review of the Original Unification Defence Budget Objectives

Thus, in 1963 the Department of National Defence was confronted with two significant documents that would require substantial alterations to the existing defense structure. One was the White Paper on Defence and the other was The Royal Commission on Government Organization. While every aspect of the internal structure of the Department of National Defence was affected by the concepts espoused in these two important documents, the area of concentration in the thesis was the budget office and the budget development procedures and processes. First examined were the original objectives of integration and unification and the introduction of improved financial management techniques. Organizationally, better coordination was achieved at headquarters with the combining of the tri-service budget offices into a single office, the Comptroller-General branch. At the same time, there was a reduction in competition among the three services for budget dollars which had been directed to their specific services. The nucleus staff that was created, while somewhat larger in size than under the tri-service organizations, permitted flexible expansion or decreases concurrent with the overall force structures determined by the government.

With the creation of a single budget office, there was a reduction in overall personnel forces within the headquarters organization because the

three services' budget offices were dismantled and in effect combined on a reduced scale into a single office. The effects of unification were felt in all of the command and field offices of the three former services. Savings in military and civilian personnel were immediately realized. With the recommendations of the Glassco Commission to reduce the audit force which was performing duplicated functions for the government, there were immediate reductions in force.

The budget organization benefited initially from unification in reduction of paperwork, files, and reports required to develop a budget estimate for submission to higher authorities for defense decision-making. Consequently, there was a more effective use of available data and a purge of unnecessary or duplicated information.

From an organizational point of view, initially the Comptroller-General would centralize the budget activities within headquarters as the forces in the field adjusted to the demands and pressures of unification. However, the centralization of functions would eventually lead to compliance with the Treasury Board direction to decentralize to the lower levels of management to ensure that the proper information was reaching headquarters to assist in more realistic budget development.

Within the framework of the unified defense budget office, there were to have been achieved certain objectives in the area of budget development and procedures necessary to produce the fiscal year budget estimates. One of the primary objectives was the reduction of the gap between defense planning, programming, and budgeting with that of the government's defense objectives by establishing an overall objective which would then be divided into seven major internal Program Objectives. Another budget procedure to have been

achieved was the introduction of an integrated program data system leading to a Total Management Information System in which cost data, cost control, and improved financial management techniques would be recognized through the initial adoption of PPBS. Once PPBS had been introduced, then Responsibility Center Accounting on all levels of management could be effected. Thus, with better management information, there would be increased inventory control, better projection of needs, and better use of the available resources resulting in more efficient and effective budget development. It was also planned that unification would reduce the time required for actual budget development.

One of the other major objectives of unification within the budget office was the eventual adoption of the accrual method of accounting on a actual cost basis.

Weaknesses in the Original Budget Objectives

There were some weaknesses noted in the initial objectives, both organizationally and procedurally within the budget office. Organizationally, the reaction to the single budget office was dismay at the size of the staff required to achieve unification. The Comptroller-General was concerned that there be immediate dollar savings recognized. However, with the initial need for a large staff to develop a unified budget program, the reductions were not forthcoming. While the three services had been unified, the budget office did not necessarily gain all of the equipment necessary to achieve efficiencies in budget preparation or for increased automation of the various proposed systems.

After the demise of the three services, resistance to change

remained and in-house fighting existed in determining which former services' concepts were better or should be adopted in part as the new policy for budget development and organization. There was reluctance on the part of Defence to reduce its audit function with the reasoning that as unification progressed, the importance of audit would be recognized. Should a reduction in this function be desired, a later termination point could be considered.

The problem of centralization and decentralization was of concern to the Comptroller-General, for it was determined that to permit the field commands to achieve the other aspects of unification, the budget would be developed centrally. Decentralization would gradually, rather than immediately, evolve as unification progressed.

As far as budget development and procedures were concerned, there were noticeable weaknesses in the original objectives of unification and from the Treasury Board direction and Glassco Commission recommendations. The gap between Defence and government objectives still existed, causing disparity in the development and effective use of the budget dollar. At the beginning of 1970, the budget office had failed to fully adopt Program Objectives as the means of preparing the budget.

PPBS created numerous problems for the Comptroller-General. With the gap existing between defense and government objectives, there was no long-term planning or review on a continual basis. This created problems with budget development, causing much time to be spent in reconciliation. Not enough data was being accumulated at headquarters to permit effective decision-making regarding budget programs. The system lacked the desired flexibility for adjustment to changes caused by the existing objective gaps. Initial slowness was

recognized by the Comptroller-General in the implementation of PPBS. Consequently, the move toward a Total Management Information System was slowed.

With target dates in re-thinking and restructuring budget development procedures delayed through lack of implementation of priority programs, little consideration was given to adoption of the accrual method of accounting. At the same time, the Comptroller-General questioned whether there were greater efficiencies and economies being realized in his department. However, at the end of 1970 with the complete implementation of PPBS about to become a reality, a staff member of the office of the Comptroller-General expressed concern about what effect a revision of the overall government budget cycle would have on the internal defense budget cycle.

Modifications to the Original Budget Objectives

The office of the Comptroller-General recognized that there were weaknesses in the budget development system as the office moved toward unification of the forces and policies. Consequently, there has been continued improvement in the headquarters office to reduce personnel as various programs are implemented and new equipment is purchased. In the long-run, savings in personnel, equipment, and time will be recognized.

Increasing automation will reduce record and file maintenance while providing improved data to assist in implementation of management information systems. The budget office is readying the adoption of various systems to simplify the development of future budgets. With the frozen budget ceiling there has been greater emphasis on coordination of government and defense objectives to project and develop budgets along program lines. More data is

being provided that enables better decision-making in budget development. The adoption of the budget preparation procedures directed by the Treasury Board is underway and will result in more decentralization of the headquarters office.

Thus, according to the office of the Comptroller-General

. . . it can be said that integration and unification have removed the inter-service competition and together with the introduction of Planning, Programming, and Budgeting System within the framework of one Defence Program, has put the competition for resources on a more comprehensive and total systems approach relating Objectives to Forces, Forces to Tasks, Tasks to Resources and Resources to Costs, thereby greatly enhancing Defence budgeting.¹

What the thesis appears to have proved is that a concept of integration and unification of an armed forces into a single force structure can be effective for a particular nation facing internal and financial pressures similar to Canada. From the point of observation of the budget office of the Canadian Armed Forces, it can be stated that greater efficiencies and economies of personnel, dollars, and time in organization and procedural development of a defense budget can be and are being achieved as the unified system matures with experience and time.

Areas for Further Study

The applicability of the Canadian concept to armed forces of other nations with similar problems would provide for a challenging and useful comparative study. At the same time, the pursuit of various aspects of the Canadian experience may be adaptable to certain areas of a large defense structure, such as the United States Department of Defense.

However, further study of the Canadian experience should be delayed

¹Comptroller-General Critique, p. 3.

until the forthcoming White Paper on Defence is issued in May or June 1971. Then the existing system should be analyzed in terms of what is proposed for the defense structure in future years.

The Department of National Defence budget office and its budget development procedures should be examined from time to time to evaluate the effectiveness of the adoption of a working PPBS, to study the benefits to be derived from the Total Management Information System, and to examine the automated personnel management and pay systems when they become operational. The budget office, after further reductions in its personnel structure and with the addition of new equipment and techniques, will be an area for continued study. The most singular positive aspect of the Defence budget office has been its ability to closely examine itself, to discern its weaknesses, and then to undertake every effort to correct its deficiencies to provide for better coordination, more effective use of manpower, and the achievement of greater economies for the Department of National Defence.

SELECTED BIBLIOGRAPHY

Books

- Burkhead, Jesse. Government Budgeting. New York: John Wiley and Sons, Inc., 1962.
- Creighton, Donald. Canada's First Century 1867-1967. Toronto: Macmillan of Canada, 1970.
- Davis, James W. Jr., ed. Politics, Programs, and Budgets: A Reader in Government Budgeting. Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1969.
- Dawson, W. F. Procedure in the Canadian House of Commons. Toronto: University of Toronto Press, 1962.
- Eayres, James George. In Defence of Canada. Toronto: University of Toronto Press, 1965.
- Enke, Stephen, ed. Defense Management. Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1967.
- Gordan, J. King, ed. Canada's Role as a Middle Power. Toronto: Canadian Institute of International Affairs, 1966.
- Hawkins, Gordon, ed. Order and Good Government. 33rd Couchiching Conference. Toronto: University of Toronto Press for the Canadian Institute of Public Affairs, 1965.
- Hitch, Charles J. and McKean, Roland N. The Economics of Defense in the Nuclear Age. New York: Atheneum, 1966.
- Leach, Richard H., ed. Contemporary Canada. Durham, N. C.: Duke University Press for the Duke University Commonwealth Studies Center, 1967.
- Lingard, C. C. Canada: One Hundred 1867-1967. Ottawa: Queen's Printer, 1967.
- McLin, Jon B. Canada's Changing Defence Policy: 1957-1963 The Problems of a Middle Power in Alliance. Baltimore: The John Hopkins Press, 1967.
- Melman, Seymour. Pentagon Capitalism: The Political Economy of War. New York: McGraw-Hill Book Company, 1970.
- Neuman, Peter C. A Nation Divided: Canada and the Coming of Pierre Trudeau. New York: Alfred A. Knopf, 1969.

- Ott, David J. and Ott, Attiat F. Federal Budget Policy. Washington, D. C.: The Brookings Institute, 1969.
- Proxmire, Senator William. Report from Pastoland: America's Military-Industrial Complex. New York: Praeger Publishers, 1970.
- Rawson, Robert H. The Formulation of the Federal Budget: Public Policy. Cambridge, Massachusetts: Harvard University Press, 1941.
- Smithies, Arthur. The Budgetary Process in the United States. New York: McGraw-Hill Book Company, Inc., 1955.
- Wildavsky, Aaron. The Politics of the Budgetary Process. Boston: Little, Brown and Company, 1964.

Government Documents

- Canada. Department of Finance. Financial Management in the Departments and Agencies of the Government of Canada. Ottawa: Queen's Printer, 1967.
- Canada. Department of National Defence. Financial Management Pilot Study: Air Transport Command. Study prepared by Simpson, Riddell, Stead and Partners. Ottawa: Queen's Printer, 1966.
- Canada. Department of National Defence. Canadian Forces School of Management. Brief on Unification and the Budget. Montreal: Queen's Printer, 1969.
- Canada. Department of National Defence. Office of the Comptroller-General. Critique on Unification and the Defence Budget. 1971.
- Canada. Department of National Defence. What the White Paper Means to the Air Industry. Ottawa: Queen's Printer, 1966.
- Canada. Department of National Defence. White Paper on Defence. Ottawa: Queen's Printer, 1966.
- Canada. House of Commons. Debates. Ottawa: Queen's Printer, 1966.
- Canada. House of Commons. Special Studies Prepared for the Special Committee on Matters Relating to Defence. Ottawa: Queen's Printer, 1965.
- Canada. The Royal Commission on Government Organization, V. I-IV. J. Grant Glassco, Chairman. Ottawa: Queen's Printer, 1962-1963.

Articles

- "Admiral's Revolt: Integration Issue." Armed Forces, August 1966, pp. 41-42.

- "Air Force Association Calls for Single Service." Army, Navy, Air Force Journal, October 1, 1960, p. 11.
- Berry, Margaret V. "Unification - the Next Step?" Air Force, October 1956, p. 48.
- Beaton, Leonard. "The Canadian White Paper on Defence." International Journal, V. XIX, Summer 1964, pp. 364-370.
- "Canada's Bold Defense Experiment: Hellyer's Integration Program." Reporter, March 24, 1966, pp. 36-38.
- "Canadians Seek Flight Officer Retention: Plan for Unification of Armed Services into a Single, Integrated Defense Force." Aviation, March 14, 1966, pp. 103-104.
- Crane, Brian. "An Introduction of Canadian Defence Policy." Canadian Institute of International Affairs, 1964.
- Echstein, O. "Budget Trends of the 1960's." National Security, 1961, pp. 767-784.
- Engle, Eloise. "Canada's Defense Role: Interview with Rear Admiral S. E. Paddon." Data, January 1969, pp. 29-32.
- "Fighting Hard to Unify Canada's Armed Forces: Defense Minister Hellyer." Business Week, November 26, 1966, p. 96.
- Foulkes, General Charles. "Canadian Defence Policy in a Nuclear Age." Behind the Headlines, V. XXI, May 1961, pp. 33-36.
- "General White Foresees More Complete Unification." American Aviation Daily, V. CIV, June 4, 1956, p. 267.
- Greiner, Larry E. "Patterns of Organization Change." Harvard Business Review, May-June 1967, pp. 119-130.
- Hamilton Spectator, September 4, 1965.
- "Hellyer's White Paper in Brief." Armed Forces Management. June 1964.
- Henken, Daniel Z. "Brief Critique: Unification Drops." Army, Navy, Air Force Journal, V. CI, March 21, 1964, p. 1.
- Loosbrock, John F. "United States Armed Forces - Why Not?" Air Force, XLIV, February 1961, p. 38.
- Montreal Gazette, 13 April 1971, p. 7.

- Porter, Representative Handy Jr. "Unification - Forces and Counterforces." Aerospace Management, V, October 1962, pp. 26-28.
- Powell, Craig. "Is Trudeau Building a 'Fortress Canada'?" Armed Forces Management, XVI, May 1970, p. 50.
- Preston, Adrian. "Canada's Armed Forces: Their Roles, Missions, and Tasks." Army Quarterly, July 1968, pp. 162-167.
- Redford, Robert. "Making Defence Policy in Canada." Behind the Headlines, XXIII, December 1963, p. 2.
- "Royal Canadian Navy: Budget for 1965-1966." Army Quarterly, October 1965, pp. 14-15.
- Sharp, R. R., Lieutenant General. "Canadian Armed Forces Unification." Royal Air Force Quarterly, Part I, Autumn 1968, pp. 197-201 and Part II, Winter 1968, pp. 280-287.
- Slater, David M. "Reforming Canada's Financial Structure." Banker, May 1966, pp. 295-301.
- Toronto Globe and Mail, 22 July 1966, p. 3.
- "Why Canada Is Welding Its Three Military Services into One." Armed Forces Management, June 1964, p. 53.
- Wilson, Richard. "It's Time to Heed Rickover on Defense Spending." Washington Star Editorial, 19 June 1970

Unpublished Material

- Pinet, Yves E. "Improved Budgeting and Programming in the United States Department of Defense and Canadian Developments." Unpublished MBA Thesis, The George Washington University, April 1965.

Interviews

- Beswick, Raymond, Captain, Canadian Armed Forces. 25 Canadian Forces Supply Depot, Montreal, Quebec, Canada, 20 September 1970.
- Bruce, Gordon, Colonel, Canadian Armed Forces. Commanding Officer, 202 Base Workshop, Montreal, Quebec, Canada, 20 September 1970.

Collins, D. A., Rear Admiral, Canadian Armed Forces, Deputy Chief Logistics.
Letter Interview of 4 February 1971.

Hickford, Kenneth, Captain, Canadian Armed Forces, Comptroller, Washington
Canadian Defence Liaison Staff, 8 February 1971.

Lindsay, R. F., Staff, Canadian Forces Controller-General Office, Canadian
Forces Headquarters by telephone on 8 February 1971.

Maxwell, P. F., Colonel, Canadian Armed Forces, Commanding Officer, 25
Canadian Forces Supply Depot, Montreal, Quebec, Canada by letter
and interview on 20 September 1970.

Thesis

K856

Krejci

127884

The effects of
intergration and unifi-
cation of the Canadian
Armed Forces on the
budget organization and
budget development and
submission process.

thesK856

The effects of integration and unificati



3 2768 002 11528 9

DUDLEY KNOX LIBRARY